

CROP INSURANCE REFORM

Y 4. AG 8/3: S. HRG. 103-1063

Crop Insurance Reform, S.Hrg. 103-1...

HEARING

BEFORE THE

SUBCOMMITTEE ON
AGRICULTURAL PRODUCTION AND STABILIZATION
OF PRICES
OF THE

COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
UNITED STATES SENATE
ONE HUNDRED THIRD CONGRESS

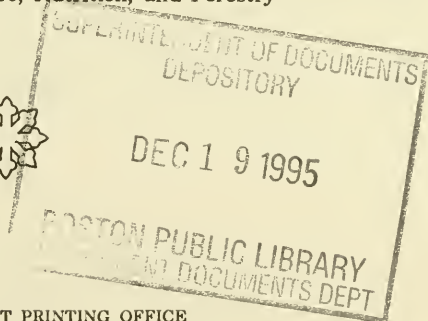
SECOND SESSION

ON

CROP INSURANCE REFORM

MAY 19, 1994

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry



U.S. GOVERNMENT PRINTING OFFICE

93-768 CC

WASHINGTON : 1995

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-047793-X

CROP INSURANCE REFORM

Y 4. AG 8/3: S. HRG. 103-1063

Crop Insurance Reform, S. Hrg. 103-1...

HEARING

BEFORE THE

SUBCOMMITTEE ON

AGRICULTURAL PRODUCTION AND STABILIZATION
OF PRICES

OF THE

COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
UNITED STATES SENATE
ONE HUNDRED THIRD CONGRESS

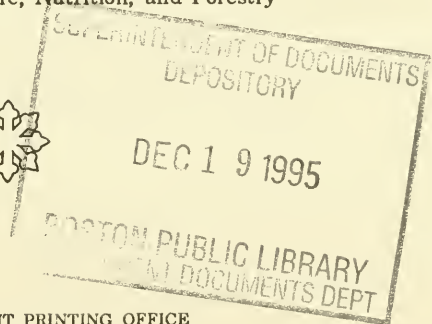
SECOND SESSION

ON

CROP INSURANCE REFORM

MAY 19, 1994

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry



U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1995

93-768 CC

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-047793-X

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

PATRICK J. LEAHY, Vermont, *Chairman*

DAVID H. PRYOR, Arkansas
DAVID L. BOREN, Oklahoma
HOWELL HEFLIN, Alabama
TOM HARKIN, Iowa
KENT CONRAD, North Dakota
THOMAS A. DASCHLE, South Dakota
MAX BAUCUS, Montana
J. ROBERT KERREY, Nebraska
RUSSELL D. FEINGOLD, Wisconsin

RICHARD G. LUGAR, Indiana
ROBERT DOLE, Kansas
JESSE HELMS, North Carolina
THAD COCHRAN, Mississippi
MITCH McCONNELL, Kentucky
LARRY E. CRAIG, Idaho
PAUL COVERDELL, Georgia
CHARLES E. GRASSLEY, Iowa

CHARLES RIEMENSCHNEIDER, *Staff Director*

JAMES M. CUBIE, *Chief Counsel*

CHRISTINE SARCONI, *Chief Clerk*

CHARLES CONNER, *Staff Director for the Minority*

SUBCOMMITTEE ON AGRICULTURAL PRODUCTION AND STABILIZATION OF PRICES

DAVID H. PRYOR, Iowa, *Chairman*

MAX BAUCUS, Montana
J. ROBERT KERREY, Nebraska
RUSSELL D. FEINGOLD, Wisconsin
DAVID L. BOREN, Oklahoma
HOWELL HEFLIN, Alabama
TOM HARKIN, Iowa

JESSE HELMS, North Carolina
ROBERT DOLE, Kansas
THAD COCHRAN, Mississippi
MITCH McCONNELL, Kentucky
LARRY E. CRAIG, Idaho
CHARLES E. GRASSLEY, Iowa

C O N T E N T S

	Page
Statements	
Hon. David H. Pryor, U.S. Senator from Arkansas	1
Prepared statement	2
Hon. Richard G. Lugar, U.S. Senator from Indiana	3
Hon. Kent Conrad, U.S. Senator from North Dakota	4
Hon. Charles E. Grassley, U.S. Senator from the State of Iowa	4
Prepared statement	5
Hon. J. Robert Kerrey, U.S. Senator from Nebraska	12
Hon. Mitch McConnell, U.S. Senator from Kentucky, prepared state- ment	31
Hon. Thad Cochran, U.S. Senator from Mississippi, prepared statement ...	31
Hon. Russell D. Feingold, U.S. Senator from Wisconsin, prepared state- ment	31
Robert McGinnis, producer representative, Commodity Groups, Mari- anna, AR	5
Richard C. Gibson, chairman, Government Relations, American Associa- tion of Crop Insurers, Council Bluffs, IA	7
Michael Connealy, operations manager, Rural Community Insurance Services, Anoka, MN	10
Hyde H. Murray, Hyde H., director, Governmental Relations, American Farm Bureau Federation, Washington, DC.	12
Alan Bergman, president, North Dakota Farmers Union, Jud, ND	15

APPENDIX

Prepared Statements	
Robert McGinnis	33
Richard C. Gibson	35
Michael Connealy	43
Doyle Rahjes	46
Alan Bergman	47
Deanna Orwig	49
Douglas Fender	51
Phil Burns	52
Additional material submitted for the record	
Position statements	
The American Bankers Association	53
National Family Farm Coalition	54
Senator McConnell's questions for the witnesses and responses thereto	55

CROP INSURANCE REFORM

THURSDAY, MAY 19, 1994

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL PRODUCTION, AND
STABILIZATION OF PRICES, COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:04 a.m., in room SD-332, Russell Senate Office Building, Hon. David H. Pryor (Chairman of the subcommittee) presiding.

Members present or submitting a statement: Senators Pryor, Lugar, Conrad, Kerrey, Feingold, Grassley, McConnell, and Cochran.

STATEMENT OF HON. DAVID H. PRYOR, A U.S. SENATOR FROM ARKANSAS

Senator PRYOR. Good morning, ladies and gentlemen.

We appreciate all of you coming to our meeting this morning. It was last Wednesday, I believe, that the full Committee on Agriculture heard from the administration with regard to crop insurance, pertaining to the proposal offered by the Clinton administration relative to crop insurance. We thought we had some very good testimony, a lot of questions.

Today, we are going to hear a little bit from the other side of the street. We are going to hear from the community out there which would have to be buying crop insurance and using this plan, if it were adopted.

It was in 1990, which was 4 years ago, that this same subcommittee met to discuss the same subject—crop insurance. I am afraid to report that in that amount of time, 4 years ago, that not much has changed in terms of the popularity or I might say the unpopularity among those in our country with regard to this program.

We stated back then in 1990 that just under 40 percent of the eligible cropland in this country was protected by crop insurance. Today, that figure has dropped to about 33 percent. In our State, in the State of Arkansas—and we will hear from Mr. McGinnis on this subject in a few moment—now that that figure is even lower.

In the 1990 hearings, we also talked about the participation rate, which was about 17 percent of the possible acres. Last year, the participate rate in our State was about 11 percent. So the producers in the State of Arkansas, and perhaps some of the other States represented on this committee, are still expressing a very

large degree of doubt or perhaps dissatisfaction with the idea and the concept of crop insurance.

I know full well that any new program is going to be controversial when it is laid out. But let me state that I do applaud the Clinton administration for stepping up to the plate with a comprehensive proposal to reform this program. Although there are still some details which need to be worked out, I believe this approach does make sense, and I think it will move us further along down the road toward a program to help our farmers.

We have an ever-increasing budget pressure to do something with regard to crop insurance. We have the absolute impossibility of predicting Mother Nature to force us to find a better way to assist our farmers in overseeing their risks, not only to help provide a better management opportunity, but also to give farmers more security for the financial resources they so badly need to carry on their expensive operations.

I would also state that there are many uncertainties regarding agriculture and farming today, as all of us know. As the old adage goes, there is nothing more certain this world than death and taxes, and I would add disasters. It has got to be in this area where we must really work together, hopefully in a bipartisan spirit, to produce a plan and a program that is workable, that is affordable, and that gets the job done.

Our producers I think today have enough concerns to worry about from year to year. They should not have to worry whether Congress will step forward and provide some form of ad hoc disaster relief when that disaster occurs.

We are looking forward this morning to our witnesses. We are looking forward also to some discussions about the question of linkage, meaning the mandatory participation in one program, subject to the participation in another. Some feel that this provision is necessary and justified. Others feel it is just unfair.

There is also the controversial dual delivery matter on whether or not the Department of Agriculture should be involved in the delivery of this new program, as opposed to allowing the private sector, insurance agents to be the sole providers.

[The prepared statement of Senator Pryor follows:]

STATEMENT OF SENATOR DAVID H. PRYOR

On March 6, 1990, a little more than 4 years ago, this subcommittee met to discuss this same subject—crop insurance. However, in that amount of time, I am afraid not much has changed in terms of its popularity among those in our country whom it was designed to help.

For example, I stated at our hearing back in 1990 that just under 40 percent of the eligible crop land in this country was protected by crop insurance. Today, that figure has dropped to around 33 percent. In my State, the numbers are even lower. At the 1990 hearing, we talked about a participation rate in Arkansas which was barely 17 percent of the possible acres. Yet last year, Arkansas' participation rate was less than 11 percent. Clearly, the producers in our State have not found a compelling reason to purchase and some times not even re-purchase crop insurance.

I want to applaud the Clinton administration for stepping up to the plate with a comprehensive proposal to reform crop insurance. Although there are still some details which need to be worked out, I believe this approach makes sense and will move us further along down the road toward a program which works for the farmers.

Our ever-increasing budget pressures and the absolute impossibility of predicting Mother Nature force us to find a better way to assist our farmers in overseeing their

risks. Not only to help provide better management opportunities, but also to give farmers more security for the financial resources they so badly need to carry on their expensive operations. In testimony that has been submitted for this hearing, bankers have said, and I quote:

"Banks across the country are primarily concerned about the availability of crop insurance which can be consistently and efficiently used as collateral. We know that dependable crop insurance based on individual farmer's needs can, and frequently does, mean the difference in whether banks are able to approve operating loans and other types of credit for farmers struggling to stay ahead in high-risk situations and in challenging agricultural markets."

More importantly, though, are the many uncertainties involved in farming today. As the old adage goes, "there is nothing certain in this world, but death and taxes," I submit we may want to add disasters to this to be complete. Our producers have enough concerns to worry about from year to year. They should not have to worry whether or not Congress will step in and provide ad hoc disaster relief.

Accordingly, I am anxious to hear from our witnesses today who can provide us with insight as to how our farmers view this proposal. As I said in 1990 and it's still true today, we should feel compelled to develop a form of crop insurance that will serve farmers according to need, and it must serve them well. For if they do not approve of the new system, I'm afraid we'll all be here again next year going through this same routine.

I know there are a number of concerns that have been raised in this ongoing debate. I for one am extremely concerned that farmers will not see the benefit of "buying up" to a better level of coverage. The catastrophic coverage level is, in my opinion, inadequate, and I am not yet convinced there is enough incentive to entice producers.

Among some of the other issues given more attention is the "linkage" question, meaning the mandatory participation in one program subject to participation in another. Some feel this provision is necessary and justified; others feel it is just unfair. There is also the controversial "dual delivery" matter on whether or not the Department of Agriculture should be involved in the delivery of this new program as opposed to allowing the private sector insurance agents to be the sole providers.

These and other matters will prove to be challenging, but with everyone's cooperation, we can, should, and I predict we will pass crop insurance reform.

Senator PRYOR. We think that this is going to be a very constructive hearing this morning. We want our participants to be frank and candid, and we are going to ask them, if they would, to attempt to hold their remarks to 5 or 6 minutes each. We are going to have other of our Senate Colleagues coming soon, we think. We do have a vote at 10:30, where we will have to have a short recess. It probably will be about a 10-minute recess beginning around 10:35. Senator Kerrey of Nebraska, our Colleague on the committee, is also going to help us co-chair the meeting this morning.

I am very proud also that we have a very Distinguished Member, our Vice Chairman of this committee, Senator Lugar of Indiana.

Senator Lugar, you have arrived in a timely fashion, Sir. I was about to call on our witnesses to proceed, but I will call on you.

Senator LUGAR. I have no comment. I am grateful to be with you.

Senator PRYOR. Thank you.

We will introduce our witnesses. First, Mr. Robert McGinnis, a producer representative on behalf of the Commodity Groups from Marianna, Arkansas; Mr. Richard Gibson, American Association of Crop Insurers, from Council Bluffs, Iowa; Mr. Michael Connealy, operations manager, Rural Community Insurance Services, from Anoka, Minnesota; Mr. Hyde Murray, who is director of Governmental Relations, American Farm Bureau Federation, of Washington—we are glad to have him here with us this morning—and Mr. Alan Bergman, president of the North Dakota Farmers Union, from Jud, North Dakota.

Speaking of North Dakota, just arriving on the scene is that distinguished Senator from North Dakota. Senator Conrad, I am just calling on our witnesses. We would yield to you, if you desire to say anything at this time before our witnesses begin.

Senator CONRAD. Thank you, Mr. Chairman.

STATEMENT OF HON. KENT CONRAD, A U.S. SENATOR FROM NORTH DAKOTA

Senator CONRAD. Thank you, Mr. Chairman and Ranking Member. You are very kind.

It is a pleasure for me to introduce to the panel Alan Bergman, who is president of the North Dakota Farmers Union, and a long-time friend of mine.

North Dakota Farmers Union, as the Chairman and Ranking Member perhaps know, has been deeply involved in the history of North Dakota. My family has been very attached to Farmers Union activities all of my life. In fact, my uncle and aunt wrote the 50-year history of the North Dakota Farmers Union.

We are especially pleased that Alan Bergman is here to speak for the farmers of our State. Nobody knows better the impact on North Dakota farmers than Alan Bergman, because he is one.

Mr. Chairman, you know my deep affection for baseball. That is no secret here.

Senator PRYOR. You are not running for Baseball Commissioner, are you? We already have one of our Colleagues involved in that.

[Laughter.]

Senator CONRAD. Mr. Chairman, when I thought I was leaving the Senate 2 years ago, I was under consideration for president of the National League. Several weeks ago, I was asked by one of the baseball owners if I would be considered for president of the American League. I told him it was a little late, given the fact my party had endorsed me for return to the Senate.

Let me just say that Alan is a former president of the North Dakota Amateur Baseball Association, so I think he has special credibility when he talks here today.

[Laughter.]

I thank the Chairman and the Ranking Member.

Senator PRYOR. Thank you, Senator Conrad.

Mr. McGinnis is representing an assorted group of farm interests this morning, I think the soybean farmers, the cotton farmers, the rice farmers, the wheat farmers, and any other commodity groups—sorghum farmers. I think Mr. McGinnis is certainly representing wide diversity and variation of these farm groups.

Once again, we have our friend from Iowa Senator Grassley who has come in. This is his second appearance before the committee this morning. I saw him come through once, and now he has come back again.

Senator Grassley, would you desire to say anything before we begin our witnesses?

Senator GRASSLEY. We have a vote soon and I am going to put my statement in the record.

[The prepared statement of Senator Grassley follows:]

STATEMENT OF SENATOR CHARLES GRASSLEY

Mr. Chairman, I have a brief statement and then I look forward to hearing from the panelists. As you know, last week the Agriculture Committee had the opportunity to hear Mr. Ackerman explain the administration's proposal for crop insurance reform. At that time, I expressed my desire to reform the Crop Insurance Program and my general approval of the administration's proposal. It is clear to me, after attending the hearing, that my Colleagues on the committee also recognize that some type of reform is necessary, although there may be some disagreement on how to reach this goal. I certainly recognize that there are some details to be worked out, but I, for one, would expect some type of reform to be implemented in the near future. I will let the panelists here today tell me whether they think that is good news or bad news.

It is important that we hear from our guests joining us today because they represent the people who will be most affected by this reform proposal. We need your views to insure that the program will be workable and acceptable to the Nation's farmers. I do know that a majority of the farmers in my State favor reform in this area. But as they say, the devil is in the details. So I look forward to hearing what your members—the farmers, the lenders, and the insurance industry—think of the details of this proposal.

I yield back to the Chairman.

Senator PRYOR. Thank you.

I was about to tell our witnesses and our participants this morning that the entirety of your remarks will be placed in the record, and we hope you can keep them somewhat brief. We look forward to hearing from you.

Mr. McGinnis, we will start off with you.

STATEMENT OF ROBERT MCGINNIS, PRODUCER REPRESENTATIVE, ON BEHALF OF COMMODITY GROUPS, MARIANNA, ARKANSAS

Mr. MCGINNIS. Thank you, Mr. Chairman, for the opportunity to testify on behalf of commodity organizations on the Crop Insurance Reform Act of 1994.

My name is Bob McGinnis, and I am a cotton, rice, wheat and soybean producer from Marianna, Arkansas. On behalf of the organizations, we commend you for holding this hearing. Reform is essential, if crop insurance is to effectively replace disaster relief and entice more participation.

The commodity groups support the concepts included in the Secretary of Agriculture's crop insurance reform proposal. I must caution, however, that producers are skeptical that a workable crop insurance program can be developed. That is why it is critical that this committee and FCIC's staff continue to listen carefully to regional concerns and develop provisions that truly make the Crop Insurance Program useful. We cannot design a one size fits all policy.

While still skeptical of the precedent, producers have generally accepted the "voluntarily mandatory" aspect of the catastrophic coverage of the reform plan as required for farm program and FmHA participation with a \$50 per crop processing fee. We understand the reason for linkage. However, we must strongly emphasize that the \$50 is to remain only a nominal processing fee and is not to be connected to risk, average or crops.

The plan provides for an option for producers to buy the basic level of coverage at the local farm service agency or through private insurance agents. We support this option for producers, both since the program is mandatory and to fulfill the promise made to

farmers of "one-stop shopping." We agree that buyup coverage and supplemental products would only be available through private insurance agents. While our groups' industry support the administration's catastrophic program as the principal mechanism for reform, we also maintain that flexibility with different coverage options is necessary to increase participation and meet regional and crop needs.

Since most farmers would be interested in the higher level of coverage, we would urge further consideration be given to reducing the cost of higher levels of coverage. The 50/60 coverage by itself is simply not adequate for even the best producers, since profit margins in agriculture are so thin. We are comfortable with the proposed dual delivery system. We believe the existence of private and public delivery will guarantee widespread, well serviced delivery of catastrophic coverage.

The commodity groups believe that the proposal should include a catastrophic yield adjustment, when calculating actual yields during disaster years. Administrative efforts to comply with congressional mandates to reduce loss ratios have relied to a great extent on the use of actual production history, a concept we support. Unfortunately, though, this concept makes no allowance for disasters and, in fact, severely reduces the coverage for a producer through no fault of his own.

Our group understands the interest in expanding FCIC coverage to new crops. However, where there is not a reasonable method of determining history, we do not want to see limited resources spread too thin. The reform effort must address the way FCIC determines price elections for various crops. This issue will require careful consideration.

Another suggestion that would enhance insurance reform would be the addition of harvest incentives. Currently, disaster programs contain provisions that allow crop production to be zeroed out, without harvesting, if production estimates are less than harvest costs. A similar provision is needed for crop insurance.

FCIC is to be commended for their continued evaluation of optional products that enhance the value of crop insurance to the producer. We are encouraged with disaster assistance programs, such as price insurance supplements and group risk programs. One concept that is particularly interesting is included in a bill introduced by Senator Heflin, is a program based on insuring cost of production. FCIC is in the very early stages of developing this concept as a pilot.

In the event of a loss, an individual approach to insuring revenue losses relative to some level of cost of production will be attractive to many regions of the country currently not utilizing crop insurance programs. Producers also point out the need to provide low premiums for producers with good loss histories or with low risk operations. FCIC formerly had a "good experience" discount, but discontinued the practice. We recommend that this practice be reinstated.

Often, losses in crop quality are more economically devastating than production losses. Improvement in the quality adjustment provisions for program crops are needed to make it more effective.

There are still a lot of questions out there that are unanswered. There are questions about how such terms as farm, such terms as field, county and units will be delineated in the catastrophic coverage. We realize that unit coverage is not offered at the catastrophic level, because of budget reasons. But we urge that unit coverage be offered by private companies as an incentive to buyup from the catastrophic level.

For crop insurance reform to be successful, credibility must be restored to the program. Abuse of the program must be minimized. We support effective oversight to producers, agents and companies, so that benefits accrue to those who deserve it.

Thank you again, Mr. Chairman, for allowing me to testify today on behalf of the general commodities organizations. We have received good cooperation—I want to emphasize that—we have received good cooperation from FCIC and our questions about the administration's proposal. We look forward to working with your subcommittee to develop a useful and affordable risk management tool for all farmers.

Thank you.

Senator PRYOR. Thank you, Mr. McGinnis.

We will call on our next participant this morning, Mr. Richard Gibson, who is a constituent of Senator Grassley, from the American Association of Crop Insurers.

Mr. Gibson, we appreciate your participation this morning.

STATEMENT OF RICHARD C. GIBSON, CHAIRMAN, GOVERNMENT RELATIONS, ON BEHALF OF THE AMERICAN ASSOCIATION OF CROP INSURERS, COUNCIL BLUFFS, IOWA

Mr. GIBSON. Thank you, Mr. Chairman.

Mr. Chairman, and Members of the subcommittee, thank you very much for the opportunity to present our views on the Federal Crop Insurance Reform Act of 1994. These views are expressed on behalf of the American Association of Crop Insurers (AACI). AACI member companies write over 60 percent of the Federally reinsured multiple-peril crop insurance, commonly referred to as MPCI, sold in the United States.

At no time has there been such a consensus for reform and an apparent willingness to merge the ad hoc disaster payment approach into an approved crop insurance program. We need to capitalize on that opportunity, and the administration's proposal provides a framework for reform that will work, if refined and implemented in a manner which capitalizes on the existing public/private partnership of the Crop Insurance Program.

We commend President Clinton, Secretary Espy, OMB Director Panetta, Under Secretary Moose and FCIC Manager Ackerman for putting this package together and choosing what is, without question, the best policy approach for addressing crop losses, an insurance risk management plan.

My written testimony, which I have asked to be included in the hearing, will discuss in detail seven key issues that must be addressed in the legislation, if it is to achieve its objectives. In addition, we provide about a dozen others that deserve some consideration, as well. The seven key issues are as follows: dual delivery, the provision of a reasonable rate of return on capital, program de-

livery expense adequate to cover the functions required, some provision for litigation support and indemnification, some alteration of the administration's fees provision, a prohibition on allowing optional insurance units on the catastrophic area, and also regulatory and paperwork reduction.

I want to focus on a few of these and relate them to a number of the questions raised by Senators at last week's hearing with Ken Ackerman. The first issue is cost. The Crop Insurance Program now or as proposed to be reformed is just not another entitlement program. It is an insurance program with numerous cost control parameters.

We are willing to work cooperatively with the subcommittee and the full committee to make the proposal budget neutral. In doing so, we cannot stress enough that the portion of the program providing increased subsidies for buyups must be the top priority of the committee. We need to emphasize that we must have additional subsidy for the buyups to reduce the level of reliance upon the catastrophic coverage.

Disaster payments will only be truly eliminated, if the maximum number of farmers buy levels of coverage sufficient to adequately protect them. One specific cost area that we believe needs attention is the administrative costs of the program. We must focus on a greatly simplified program for both the catastrophic coverage and the additional coverages that will be available. A completely restructured program in both appearance and function is what it will take to convince farmers that real reform has happened.

Overall, we believe that there could be at least one-third reduction in the administrative requirements of the Crop Insurance Program, without adversely affecting program performance. As we contemplate adding approximately 1.4 million participants to the program, the streamlining and reduction of the administrative burden for FCIC, the companies, the agents and the participants becomes even more vital.

A second cost and issue area is dual delivery. While the budget scoring may not reflect it, we agree wholeheartedly with what Senator Kerrey stated last week. A blanket application of ASCS delivery would be grossly inefficient and a wasteful way to run a program, when in most areas of the country the insurance expertise and facilities already exist in the private sector. This is one of the essential changes we believe is necessary in the administration proposal. We think there are areas in which they must be served by the Government, but there are also significant areas of the country where the private sector can do the job.

The crop insurance statute requires FCIC to use the private sector to the maximum extent possible, to avoid duplication by the Federal Government. Thus far, they have not done so, and the proposal for dual delivery is directly contrary to the statutory requirement. The private sector is committed to delivering the program to every farm participant, and we have the capability to do so in a more convenient, cost-effective, efficient and farmer friendly manner than the Government.

Another key issue is allowing for a reasonable return on private capital invested in the program. To achieve the objectives of the proposed reform, there must be a healthy private sector crop insur-

ance industry. That health is greatly affected by the risk sharing relationship it has with the Government.

Private industry lost between \$85 and \$100 million on the MPCIC Program in 1993. The only way to keep the industry involved and to be able to bear another hit of even half of that magnitude is to provide us with an opportunity to earn a reasonable rate of return. FCIC, industry and the Congress must agree on what that reasonable return should be, and then we must abide with that without reserve.

Several Senators raised questions about ways to provide more coverage on different types of coverage. We agree that farmers would be much more convinced that reform had occurred, if premiums went down 20 to 25 percent, as opposed to the 8 to 17 percent. Therefore, the increased subsidies for the buyups would be in the long-term best interests of the farmers and the taxpayers. We would like to work with the committee to find the funds to enable that change.

Both Senator Daschle and Senator Heflin mentioned either dollar coverage or cost of production coverage. We are, of course, very familiar with providing dollar type coverage with crop hail. But it is important to note that dollar coverage will have to work differently in the multiple peril program than in the hail program.

Cost of production coverage is a much different proposal that is difficult to assess. If not done properly, it is unclear whether the individual cost of production data is available wide enough a scale to accurately measure the insurance risk involved, and to do it properly, a system could be created where one inefficient producer's cost of production is another efficient producer's profit, and it would truly encourage the farming the Insurance Program, as opposed to farming the ground.

However, in all of these things, the private sector can help. We want to provide a catastrophic yield floor and better means for livestock producers to improve their yields. Given the proper incentives, reasonable opportunities for return on capital throughout the program, and appropriate government backing, USDA and farmers would be amazed at the explosion of insurance products that could be developed to meet the farmers' needs.

Senator Heflin mentioned that a new name for the program may be in order, and I think the private sector would totally agree with that suggestion. Senator Conrad expressed concern over the impact of the 1994 Appropriations language, which imposed the non-standard classification system program on farmers in counties with loss ratios greater than 1.1 in 7 of the last 10 years.

We have similar concerns with the arbitrary cap that was placed on our expense reimbursement in that same bill. However, we do believe that the catastrophic protection provided by the Reform Program should be a floor of protection that no farmer, even those flagged by the NCS Program, should fall below.

In conclusion, we have a unique opportunity this year to drive the crop insurance stake deep into the soil, to insure that the tent of protection for farmers will be able to weather the significant winds of change facing agriculture in the years to come.

The time for leadership is now. We believe the administration has set before Congress a framework for reform. We firmly believe

that the private sector can delivery day after day more bang for the scarce Federal dollars available, thereby permitting the intended beneficiaries, farmers to receive the bulk of those scarce dollars.

We thank you for the opportunity to appear before you today and look forward to working with you to insure the development and the implementation of an improved crop insurance program.

Senator PRYOR. Thank you, Mr. Gibson.

Our third witness this morning is Mr. Michael Connealy. Am I pronouncing that correct?

Mr. CONNEALY. It is Connealy, Sir.

Senator PRYOR. I thought I was not doing it quite correctly, Mr. Connealy. We appreciate you being here. You have come a long way from Anoka, Minnesota, and you are representing the Rural Community Insurance Services. Thank you for being here.

STATEMENT OF MICHAEL CONNEALY, OPERATIONS MANAGER, RURAL COMMUNITY INSURANCE SERVICES, ANOKA, MINNESOTA

Mr. CONNEALY. Thank you, Sir.

Mr. Chairman, and Members of the subcommittee, on behalf of Rural Community Insurance Services and our parent, which is Norwest Corporation, we are pleased to have the opportunity to testify before this subcommittee on the Federal Crop Insurance Reform Act.

Rural Community Insurance Services is one of the largest, if not the largest, managing general agencies for deliver of multiple peril crop insurance in the country. This year, we expect our sales in premium dollars to approach a little over \$200 million. We have over 1,000 agents engaged in the sale and service of crop insurance in virtually every county and State in the United States in which agriculture is a significant part of that economy.

Norwest is also unique, in that we are one of the largest ag lenders in the United States, and our ag loan portfolio in 1992 will approach \$1 billion. We are a significant ag lender in several of the States represented by the subcommittee, Wisconsin, North Dakota, Iowa, Indiana. We also are in about 15 midwestern States, down into Texas and New Mexico. Norwest is primarily interested in the Crop Insurance Program as a lender. Despite the fact that we are maybe the largest deliverer of the product, our primary goal is use of the tool as loan collateral, and we will have some comments as regards that.

We support the comments made by the previous two witnesses as regards the reform act, and agree that it does provide a framework on which to build a better crop insurance program, and are anxious to work with the administration and Members of Congress to do so.

I think our primary concern as a lender is to the extent that the reform act bolsters the collateral value of crop insurance for our farm families and increases their ability to manage risk will also strengthen the financial underpinnings of the rural communities.

We support the administration's effort to eliminate disaster payments and increase participation. We do not believe that these objectives are advanced by the creation of a duplicative, nationwide, Federal or government delivery system. As an issue, the dual deliv-

ery system causes us a great amount of concern. We do realize there are regional problems where certain areas of the country may be under-served, and we ask that the FCIC, the Federal Crop Insurance Corporation, define an underserved area, so that the private sector may have an opportunity to move in there and deliver the product.

We also have been asked for comments on the mandatory linkage part of the program. We believe that linkage philosophically makes a certain amount of sense. However, we would not be opposed to a waiver system, where a farmer could sign a waiver forfeiting any sort of disaster payment or benefit in return for not having to sign up for the free coverage.

We do not believe that is a particularly huge issue, the waiver, \$50. Unless you are an awfully small producer, it does not seem to be too much to ask in return for what over the last 6 years amounted to \$1.6-billion-a-year. I know of several disaster payments in our State of Minnesota that exceeded \$100,000, and at \$50 a pop, it would take several years to cover that. So we do not believe it is that big of an issue.

Based on our experience as an ag lender and also as a crop insurance marketer, we are convinced that the catastrophic coverage proposed would not benefit our target market, those being younger farmers who most need the assistance of a government program. Most lenders, including Norwest, require crop insurance as collateral for certain land and operating loans.

This requirement on our books and other lenders' books most affects young farmers who have not yet built up equity in their land or equipment. Catastrophic coverage alone would not be adequate to meet those credit needs. For collateral, they need a much higher level of coverage, and for that we believe we should enhance the buyup portion of the program first, then deal with the standing disaster coverage second.

We also propose that the reform address the two major complaints that are universal in the Crop Insurance Program at the farmer level, those being the price is too high and the coverage is too low. We write business in 40 States, and we will universally hear that from California to Florida, North Dakota to Texas, that the price for the product is too high and the coverage is too low.

We believe if we focus the premium subsidy in those areas of coverage greater than 50/60 and up to an 80-percent level and provide options to the farmers to meet their needs, we will produce a better bill and a better reform act that is better received in the field. If we come out with a reform act and the premiums are too high or the coverage is still too low, we will all be painted with the same brush that we have reformed the program with, spent an additional billion dollars and did not affect the customers' perception of the program.

We cannot emphasize enough the importance that policyholders be allowed to pick their level of coverage in conjunction with their lender that best meets their needs. And we do not believe that the reform addresses that specifically, because they have a desired level of coverage which is 65/100. They have focused their effort in

that area. We believe that it is better for the policyholder to pick based upon his individual needs.

I think with that, we will conclude our oral remarks, await questions and submit the balance in the written testimony.

Senator PRYOR. Thank you, Mr. Connealy.

I am going to recess our meeting in just a moment and come back to Mr. Murray and Mr. Bergman when we resume. We will recess approximately 10 minutes. Some of these younger Members of the committee can go over there and get back in 7 minutes, but it takes me about 10 or so. We will be right back in about 10 minutes.

[Recess.]

Senator KERREY [presiding]. This hearing will come to order.

We will continue with the panel discussion with Mr. Hyde Murray, director of Governmental Relations, with the American Farm Bureau Federation here in Washington.

STATEMENT OF HYDE H. MURRAY, DIRECTOR, GOVERNMENTAL RELATIONS, AMERICAN FARM BUREAU FEDERATION, WASHINGTON, DC.

Mr. MURRAY. Thank you, Mr. Chairman, for this opportunity to present our views on crop insurance reform.

My name is Hyde Murray, and I am a director of Governmental Affairs, American Farm Bureau, in the office here in Washington, DC.

We have filed a statement of our president from Kansas, Doyle Rahjes, who testified in behalf of the American Farm Bureau last month in the House. With the permission of the Chair, we will have that made of the record.

Senator KERREY. Without objection.

Mr. MURRAY. Thank you, Mr. Chairman.

The testimony that Mr. Rahjes presented is before the subcommittee, and I will try to hit some of the highlights of it and then be available for questions as you go on. His testimony is altered only in the sense that the march of history has changed the dynamic and that history being made by the Budget Committee in providing a full billion dollars in funding for fiscal year 1995 to carry forward the Crop Insurance Program.

My suggestions are based on Farm Bureau's basic policy that we feel this legislation is very much positive and it is very much worthy. We have some amendments that we think should be made, 4 of which you might call technical type amendments that will hopefully improve the quality of the legislation, and the other 2 are philosophical and policy questions dealing with linkage and means testing.

So let me, if I could, touch on the highlights of Mr. Rahjes' statement on the substantive matters that deal with the technical aspects of the legislation. The first is the 50-percent trigger that has been alluded to earlier by Mr. McGinnis.

The temptation with legislation like this is to draft an all-encompassing formula that tries to fit everybody every place, and the 50-percent trigger works probably most places, but there are places in the country where that probably would not ever occur, and the

farmers in those areas would feel that they are paying the \$50 to just help the Government with its fiscal problems, not really being related to any kind of anticipated benefits. So there may be some room we would hope in an alternate choice structure that still stayed within the budget constraints and give the growers in different parts of the country a little different choice.

A second area that the Farm Bureau suggested was using dollar coverage, rather than yields. Maybe the ship has gone too far to consider that, but I would remind the subcommittee that that was one of the recommendations that the commission that was created back in the late 1980's came up with, a commission which, incidentally, leaves its legacy in many ways to the legislation that is being considered now and the legislation in the last couple of years.

Much of that came out of the commission, which Senator Leahy and Senator Lugar were members of, along with several House Members and the industry, and two presidents of the Farm Bureau, Mr. Rahjes from Kansas and Mr. Laurie from Michigan, president of the Michigan Farm Bureau. So that would be for your consideration.

Also, we would like to work with you in the thorny thicket of buyup and dual delivery and try to structure a system where there is a maximum amount of convenience for the farmers with the best fiscal matters vested for the benefit of the program, so that it stays as actuarially sound as possible. We do have a qualm about changing the 75-percent threshold up to 85 percent, because of actuarial soundness and the exposure that might make to the program's costs.

The final technical area is on fruits and vegetables, and that is some language we have suggested that you might want to consider, using the words "four consecutive plantings," rather than "4 consecutive years," because in many areas of the country where there is good weather all-year-round, it is not just an annual planting, it is sequential planting of the same crop in the same year. I will leave that for your consideration.

On the philosophy side of the question and policy side, first linkage. We recognize the argument that the administration makes and many of the proponents of the program and the reform make, that by tying price support eligibility along with Farmers Home loan eligibility to buying a modest minimum crop insurance program is certainly a financial incentive and almost coercion to have greater participation.

The greater the participation, the greater the actuarial base and the greater the actuarial soundness. So there is an argument for that that we recognize. But even the proponents estimate that with this kind of linkage, they will only reach 80-percent participation. For some reason, 20 percent would still stay out. We would submit that the more difficult, the more onerous, the more restrictions that are placed on price supports, along with a continued diminution of the amount of money involved in income transfer with those price supports, the less enthusiastic the commercial farming community becomes for participating. At the margin there is always some that will say, well, I think I will just write off the Government altogether and go cold turkey and not be a participant, if I can help it, and let it all go.

So we think that in the implementation of this program, that freedom and choice would be preferable to coercion, at least try it for a while and see if we could not get a high level of participation, because really it is a good bargain. \$50 or \$100 max for the type of coverage that is provided is really an attractive benefit.

In that regard, we do have a qualm also that the \$50 will be a target for a future budget group, because on the fiscal year 1995 budget, OMB was quick to pencil in an additional \$40 million because of this legislation being enacted, and another 800,000 farmers signing up at \$50 a head would give them a quick \$40 million more for the budget for fiscal year 1995, which may well occur.

But the temptation for future Budget Committees is going to be great to raise that amount, and we would contend that if you had a voluntary system, that would be an inhibition for future budget raises of that fee. Conceptually, in many ways it is similar to what happened with the soybean origination fee that was included in the 1990 Farm legislation. That was felt by soybean growers as being onerous and in due course was repealed. This kind of a thing is here, too.

So, on linkage, we say just try it voluntary, try it with freedom of choice first and see how it works, and then, if necessary, go to a mandatory system or have some deadline or some form of a provision that maximizes participation by the farmers on a voluntary basis.

The last area is what I would call an obscure, but nettlesome provision. It is one that does not get very much attention, because it is a very narrowly drawn and is quite an unattractive provision. It is the means test which in the bill is of \$2 million gross income, and it applies to the growers of the nonprogram crops, that is the crops other than the 55 or so that are eligible for crop insurance. In American agriculture, that adds probably another 100 to 150 crops of all sorts of exotic and unusual and different kinds of crops that are not regularly grown, but are grown as specialties.

This provisions sound at first blush, when I first got into it, I said, gee, I am going to sound like an advocate for Michael Jackson and His llama ranch, because how many people make \$2-million-a-year even gross. Just baseball players and hockey players and maybe country singers and entertainers, and maybe a few farmers and ranchers begin to get \$2 million, when you add up the terms that are in the definition that are in the bill, which include not only agriculture and farming, but also livestock and also forestry that begins to get into the specialty crop value again and into the livestock herd. Although the livestock is not covered by crop insurance, livestock's value would be calculated into the income test that is in the bill.

So we think that means test is out of place in a farm bill. Granted, it has been in legislation since 1988, and I believe the legislative history reflects the author is Senator Boschwitz of Minnesota who put this provision in back some years ago. So it is not unprecedented as far as disaster legislation is concerned, but it is wrought we think with great mischief, if it is put into a farm bill.

Because when 1995 comes around and the legislation again is considered for major farm legislation and eligibility for price supports, we are going to certainly have the ghost of Congressman

Arney and Congressman Schumer, who formed a right-left phalanx in the House during the 1990 Farm bill and tried to enact a means test at \$100,000 gross, much lower and much more impactive.

With the environment in the new Congress, with so many new Members, it is going to be more difficult than ever to try to resist the temptation to means test farm program benefits, which, as this committee knows, are dedicated not to welfare, but to the general public's benefit through having a stable agricultural system with loans for the banking community, for job creation and export opportunity in agriculture.

So it is those two things, the linkage and the means test, where we think there is considerable more work that needs to be done. But, bottom line, like I say, we think this bill, which is a legacy of many years of effort, coordinated bipartisan effort by the administration and by the minority in the Congress is worthy, and we hope to work with the subcommittee and the committee to perfect the legislation and move on.

Senator KERREY. Thank you, Mr. Murray.

The next witness is Mr. Alan Bergman, president of the North Dakota Farmers Union.

STATEMENT OF ALAN BERGMAN, PRESIDENT, NORTH DAKOTA FARMERS UNION, JUD, NORTH DAKOTA

Mr. BERGMAN. Thank you, Mr. Chairman.

Today, I am representing 250,000 families of the National Farmers Union. I am a farmer in North Dakota, a dry land wheat farmer, also raising barley and sunflowers and flax and alfalfa on our farm.

In the testimony, we have outlined 10 points that we address, and let me just as quickly as possible go through some of what I would deem the more important points addressing the issue of the day on the reform of Federal crop insurance.

We support the repeal of the ad hoc disaster authority of catastrophic insurance as made available to producers at the affordable price. Others have addressed that, and we believe the administrative fee, if it is just that, is what we would consider affordable to do that.

The linkage to the Farm program, we support offering crop insurance as a benefit of the Farm program participation, but we further support requiring for participation at a catastrophic level, as long as those costs are kept at the administrative fee level.

The delivery system, which has been addressed by the others here, being from North Dakota, I can say that we have a high participation rate in crop insurance and have had for some time. We have it delivered through the private sector, through professional insurance agents. I think that is one of the reasons that we have a high participation rate, because of that, and they being able to go out and sell the program and the need for it, and also what the availability is and keeping farmers apprised of changes.

So if we are going to have a goal of actuarial soundness, I think that we need to consider that. It has worked well for us, and I point that out. I think we need to really be oriented towards the private sector delivering the buyup provisions for sure.

Now, I would go one step further, because I think steps need to be taken to insure that the crop loss adjustment is fair and accurate. We cannot afford to have duplication in that area, and we need to work out the abuses in that area. We are hoping that that will be some goal of the reform, because that will only drive up costs if this continues to be a problem and an abuse of the area of crop insurance.

Now, another area is the levels of coverage. We believe that crop insurance will not provide an adequate level of loss protection, unless producers participate in the levels of coverage higher than the catastrophic coverage. Now, we would support yield coverage of 65-, 75- and even 85-percent levels, and if there is some way that we could incorporate the cost of production, we would encourage that, also.

We would further recommend that the premium subsidy is offered to encourage producers to participate at these higher levels. That has been addressed by others, and I think that is an important point.

We need to offer coverage for the loss of yield on preventive planting, and we provide coverage for the loss of quality. That has been addressed. That oftentimes is very significant. You can have the production, you can have the yield and put it in the bin and it is worthless. So that is a real point from a farmer's perspective that we need to address.

I would only say that we offer our strong support for the reform and commend the administration for bringing it, and commend this committee for the hearings on this very important subject, especially from the farmers that I represent.

Thank you very much.

Senator KERREY. Thank you very much, Mr. Bergman.

Let me begin by saying that in the markup, Senator Lugar raised what I consider to be an extremely important question or point or whatever it was, discussing the concern about this becoming an open-ended entitlement program.

Insurance, as I see it, anyway, it has great appeal to me. Crop insurance has great appeal to me, because it gives the producer a tool that they can use, a choice that they can make to manage the risk. But it is a choice. If I want to buy the product and get the coverage that the product provides me, in case of disaster and something happens, and I find myself short, I can take it to the bank. There are lots of advantages to the Crop Insurance Program.

But I hope that we in the deliberations here do not sort of pile on and convert an effort to provide producers with something to manage risk to something that basically allows producers to eliminate all risk, because then we really have opened up something that I think is going to embarrass all of us, if that is what in fact happens. I will tell you, there is a tendency to do that. There is a tendency, as there is in the Disaster Program.

One of the worst things about the Disaster Program is all of a sudden all ideological bets are off. I mean there is no restraint any longer. You have got Republicans and Democrats that previously had been opponents of lifting the caps and enthusiastic for deficit reduction, all of a sudden we have got a free ride, and we have got an opportunity to do our press releases together and put our

swords down for the moment, and the President comes down and it is a Republican 1 year and it is a Democrat the next. We all get together and we get a big picture and we are grinning at each other. You know, we are doing a good deal here, because we know we are not accountable, we are not accountable to anybody. It is all free and it is taxpayer money and we will borrow it from the Treasury and everything is okay.

I will guard, as somebody who has worked on this legislation, worked with this administration and previous administrations on trying to produce a piece of legislation that will give producers a chance to manage their risk, I will guard against efforts to convert this thing into an open-ended entitlement that basically allows people to eliminate all risk.

We really need to take a page from the health insurance problem. What has happened with health insurance, as I see it, is we have gone from 1950, 80 percent of bills were paid out-of-pocket, and in 1950 bought insurance to manage their risk. Now what happens with insurance is that people buy it because they do not want to pay anything. That is basically what it amounts to. They do not want to pay anything. I have got people who I respect a great deal, I love a great deal that will come to me and complain about paying \$41-a-month for Medicare coverage, because they think it is excessive.

It does not take long, once you lay down a standard of entitlement, it does not take long for people to get enthusiastic about ratcheting up the standard. I think it is very important for us to say right from the beginning and assiduously guard against those who want to change the terms of this, that this is going to be a tool that we are going to try to provide to producers so that they can manage their risk, rather than having politicians manage their risk, they manage the risk.

Though I would like to provide incentives to buyup, I am going to be very careful to say to any producer that sits out there and says I do not want to buy the product, they do not have to buy the product. If they want to go completely naked and manage their own risk in other ways, let them do it, as far as I am concerned.

I think we need to work this program so that it is attractive, so that it is market oriented, so that it provides the producer with flexibility. In fact, the next point that I would like to make—and then I will ask one question and I will yield to other Senators to ask questions—is I remember in 1990 when we wrote the Farm bill, that the battle cry was flexibility. I think it is a good battle cry. I think we ought to try to keep our programs both flexible for the producer and flexible for the Secretary.

In this case, one of the concerns I have got is that there is a presumption that we have to require the Secretary to do something, rather than merely authorize the Secretary to do something. In that regard, the question I have got is we have in the language a requirement that we develop a dual delivery system. I recognize that there are many areas of the country—the Senator from Alabama, when we reported the bill, was concerned with my statement that it might mean in Alabama where they need to deliver the product through ASCS offices, that it might mean that he might not be able to get that done.

The question I have asked is do you all see any problem or what do you see the consequences of merely saying to the Secretary that the Secretary is authorized, in those areas where there is a need to do it, to allow the Secretary to provide ASCS with the assistance and the resources of the new farm services with the authority and the assistance to be able to provide the coverage.

Mr. Bergman, what do you think?

Mr. BERGMAN. Well, I address that in the testimony, Senator. I can only use the example, in our State the participation rate is driven I believe by the delivery system that we have. Now, I recognize that in other areas where the participation is low or there might be some other concerns, that maybe there has to be a dual delivery system. I can only point to the example that we bring from North Dakota. It works. I would even suggest that the catastrophic part of it could be delivered through the private professional agents, and farmers are accustomed to meeting with them.

As far as your other comments, we as farmers are willing to pay. I have had crop insurance for 30 years and I have only had one loss in those 30 years, but I have paid it every year, because I am willing to pay to manage our risk. What I am saying is if we are going to have a conversion now and give up ad hoc authority for disaster, those moneys needed to supplement the premiums to get the buyup so that farmers are accustomed to buying that.

Otherwise, if you do not get the sort of mentality that we need to do that, you are going to have tremendous pressure for disaster authority. So it will come right back to you again for the things that you do not want to happen. I am saying I think that would be the best way to approach the problem, if we are going to have to get off disaster. We are willing to do that, and I stated that. But it is where those dollars are going to be allocated. The catastrophic is not adequate, as I think everyone has recognized here. It is not adequate for farmers, so we are going to have to buyup, and I think there is some rationale of putting some ability of allocating those dollars to the buyup providers.

Senator KERREY. Does anybody else have any comment on the difference between saying to the Secretary that you will do it this way, as opposed to requiring it to be done in a dual delivery system? As I see it, every farm service office in the United States of America is going to have to train their people to be able to do this, is going to have to spend, Lord knows, I do not know, thousands of hours of training in some cases to do nothing. It seems to me that we could do the same thing by merely authorizing in this legislation the Secretary in those areas where it is needed to do that.

Mr. MCGINNIS. Well, I testified that, as far as the catastrophic portion of the bill, we believe that it should be dual, that the farmer should have a choice. He is in the ASCS office all the time, he is comfortable with it, and he should have a choice of going there if he chooses. But if he chooses to go the private route, you know, for the catastrophic, that is okay, too, but he should have the choice.

I also testified that as far as the scale up buying, that should be the private. We feel very strongly about that.

Senator KERREY. You are saying that every farm service office in the United States of America should be required—

Mr. MCGINNIS. Yes, the farmers in my area and most of the ones I represent feel comfortable, they are in the ASCS all the time and they do not want to—in some areas, you know, you have got to drive many miles, you know.

Senator KERREY. Mr. McGinnis, what about those areas where farmers are comfortable now going to the private sector?

Mr. MCGINNIS. I think they should be allowed to go. That is their choice.

Senator KERREY. But under this legislation, we are saying that what works in Arkansas, that what works in Alabama, we are going to require that mechanism in every single farm service operation in the country. I mean that is basically what we are going to do. I do not want to take away what works in Arkansas and what works in Alabama at all. I want to give the Secretary the authority to be able to do that.

My concern is that I do not think it is a good principle for us to say, well, we have got to do it the same nationwide, if we have workable systems in other areas.

Mr. MCGINNIS. But we are also telling that farmer you have got to go to the private sector. That is the other side of the coin.

Senator KERREY. To buyup.

Mr. MCGINNIS. We agree with that, to go to the private sector to buyup. But as far as the catastrophic coverage, we think that he or she needs a choice. If they want to go to the private sector for the catastrophic, that is fine, or if they want to go to the ASCS office, they have a choice.

Senator KERREY. I think what you are going to set up, my own view is what you are going to set up is a situation where the training that is required and the money that is required for spending on training may force further consolidation and reductions in other areas. I mean we could be doing a significant amount of training in some FSO offices in Nebraska to delivery no policies at all, or one or two policies.

The impact of that, Mr. McGinnis, is that the overall USDA budget is going to be affected. This is one of those deals where it could come back and we say, well, we hate to close down and do consolidations one more time, but we have got one more layer of bureaucratic requirement that is attached to the Crop Insurance Act, and though I appreciate nobody needs this in Nebraska or South Dakota or North Dakota, nobody is asking for it, the laws says you are required to do it. It does not give the Secretary the authority to do it in those areas where it is needed. You are required to do it, whether you need it or not.

That is my concern, and I suspect there are some situations that are reverse, where we need to do it in Nebraska and you do not need to do it in Arkansas or Alabama.

Mr. GIBSON. Senator, I think Mr. McGinnis testified earlier about regionalization of the products, of not doing everything on a one cookie-cutter approach, and I think this is very much the same situation that you are discussing right now. In some cases, lack of participation, maybe in Arkansas and other areas, has been that the product is not always as good as it should have been and, as a result of that, there has not been a significant investment of time and effort by the private sector agents to deliver the product.

But I think there is another situation that is very key to this overall program as we go forward, and that is the counseling and the ability to sit down with the farmers and advise them of the buyup potential. Obviously, I am not familiar with the ASCS offices in Arkansas, but I am fairly familiar with them in Iowa and Nebraska on almost a daily basis.

When farmers have to make appointments at 4:00 o'clock, and at 4:30 the office closes, I find that it takes a lot longer time to sit down and counsel people regarding the crop insurance and their ability to buyup and to make this a true risk management program. I think it is going to take significant more time than is probably available in those offices.

I do not disagree certainly from your statement that if there are underserved areas or areas that can better be served. Then I think the Secretary ought to have the ability to designate those areas.

Senator KERREY. Senator Lugar?

Senator LUGAR. Mr. Chairman, I would just point out that you and Senator Danforth and others have been involved in an important mission for the country, namely to try to take a look at the budget problems, and your interest in this is exemplary of that work, which is thankless, because essentially here we are again at a time in which we could do the right thing. The temptation to head into the drink is very substantial.

Let me just be clear of where I am coming from. I have had analysis of the 1981 to 1993 crop years, and during those years, indemnity payments to farmers were \$1.51 for every dollar of total premium, which is to say that roughly two-thirds of the cost of crop insurance is paid by farmers taking out the insurance, and about one-third is a subsidy from the U.S. Government.

So it is a situation that we have all known, and there are different participation rates, as this panel exemplifies, but very disparate ratios of loss. For example, if the U.S. total is \$1.51 out for every dollar in, in Vermont, the Chairman's State, it is .71, which means that Vermont is subsidizing the Nation. Indiana does a little better. We have got \$1.19 back for every dollar in. However, if you sort of move up through the ranks of States in no particular order, Alabama at \$2.03, Utah at \$2.40—interesting, disparate geography—Nevada is the highest at \$3.52, followed by Louisiana and Arkansas, \$2.55 and \$2.41.

This means that essentially, as we take a look at the actuarial principles of this thing, although it is desirable to have coverage at higher levels than the 50 percent or maybe the 65 and so forth, the testimony we heard the other day is that as you approach 85, 90 or what have you and you are subsidizing the whole process, the outlay by the Federal Government might be larger. Now, no one knows until you know how universal the coverage is and whether yours were bad or not. But if you have a program which, at least the history of it, as you pay out \$3 for every \$2 you are taking in and you do more of it, the possibility is you may increase the total amount of outlay, as the volume of the program increases.

At least there are many who actuarially feel that is precisely what they would predict would occur, given a range of years. That is a problem, because this bill calls for a main line into the Treasury. This is an entitlement that does not require annual appropri-

tions, no particular hassle over getting a disaster bill up or amending the thing. Once you have it, it is like Social Security, it is there and you counterpoint it.

The estimate is that roughly it will cost the Government, to ask for no more than what we are doing now, namely \$1-billion-a-year or slightly more than that, and that is roughly what has been laid aside for that.

Of course, if in fact the program becomes enormously successful and millions of farmers pile in and buy the premiums and we still pay out \$3 for every \$2 coming in, the \$1 billion will not cover it. As a matter of fact, we will be having a deficit that is larger and larger, although security that is more substantial, as I suppose is the tradeoff.

What I think comes home to roost in this particular hearing and markup that may follow is that, as was revealed I think at the last hearing, CBO is still taking a skeptical look at the very proposal in front of us now, unless it is substantially amended. They still believe that, over a 5-year period of time, direct spending will be \$711 million in budget authority beyond the \$1 billion that is provided for 5 years in the resolution we passed, and \$362 million more in outlays. That has to be gotten around before a successful markup can conclude, I believe, or you simply violate the budget agreement right off the bat, even while you are attempting to compress this situation within it.

So staff has been busy trying to figure out how you get rid of a \$711 million budget authority figure and \$362 million in outlays. They have not been successful, as far as I know, and need to be, because I am not sure how you restructure this thing to get rid of \$711 million or \$362 million. These are fairly large items, even before we get into the unknown of how far we want to cover this thing.

With that background, I have sketched out an idea and submitted it to CBO, so that for the record that communication is going on. I suppose, Mr. Gibson, I will ask you to try to follow this, if you can. Others may want to, and I apologize for such a technical question, but it is a technical issue.

What if we had this role for the Federal Government in crop insurance, where the Federal Government would provide free catastrophic yield coverage in order to reduce the chance of—ad hoc disaster insurance, the USDA would provide free catastrophic yield insurance for individual farm losses, 50-percent yield, 60-percent price election, the same as under the Clinton proposal, but we would repeal the ad hoc crop loss disaster payment authority in the current law, and that is also in the Clinton bill—and then something that is new, phase out premium subsidies and company expense reimbursements for APH buyups, phase out the current Federal subsidies for individual crop insurance policies over 3 years.

Clearly, this would mean farmer purchases of the traditional FCIC crop insurance would fall to zero. We would replace FCIC APH buyups with subsidized area insurance buyups, authorize insurance companies to sell area insurance buyups for all FCIC insurable crops around the country. This has already been greatly expanded for the 1994 crops. And the present 30-percent premium

subsidy would be retained, and the companies receive a modest expense reimbursement for that service.

Finally, authorize companies to sell and underwrite their own individual farm policies. Most farmers would continue to want individual crop insurance protection. The pools would allow companies to offer individual farm protection, and companies would be free to set premiums, but they would have to assume all underwriting risk. FCIC would not provide expense reimbursement. Companies would be allowed to package area and individual yield policies together to reduce risk associated with drought or floods, and competition among companies for farmer business would keep premiums down.

What is your first reaction to that idea?

[Laughter.]

Mr. GIBSON. Is it possible that I could assist you in writing the bill?

[Laughter.]

First of all, I have tried to make some notes and I will see if I can follow through with part of it. I think that I am going to make a little bit of a statement in the 50/60. I think that one of the things about the present bill that we have to do is to make that at a very minimal basis, so that there is emphasis to buyup. So I would say there might be a possibility of maybe moving that coverage down somewhat, to make it more available and more emphasis to get the coverage that the farmer needs to take to the bank.

Repealing the farmer subsidy for the premium, as well as the expense reimbursement, I think, as you say, will reduce the sales to essentially zero, because the expense that is involved with this is that the Government is really subsidizing not 30 percent of the premium, but 50 to 60 percent of the overall cost plus the excess losses, which in reality are another subsidy.

Senator LUGAR. As you can see, our one reason why we have this problem with OMB or CBO or what have you.

Mr. GIBSON. I think that is true, but, on the other hand, as you went through the loss ratios a little earlier, you did not mention some of the upper Midwest which have fairly favorable loss ratios, such as Iowa, Minnesota and Nebraska, down through the years that have also subsidized, I would say, some of the other areas.

So, in reality, the rate-setting and the guarantees are a function of the FCIC. The marketing companies, such as ourselves, have no input into that. Those rates are totally set by the Federal Crop Insurance Corporation.

The part I think of where we come to an appeal that I have seen—and I am sure that the two farmers here today would be very positive in this same thing—is the reason farmers today participate in the Crop Insurance Program is because of the individualized APH yield. The farmers that I work with, they say I want to be judged on the basis of my ability to manage my farm, and the production that comes from that is a result of my management ability.

So I guess I would go back over to what you are saying in the area coverage, I do not think that would be a salable product. I do

not think that it would give the coverage or provide the necessary protection to them that they need in the event of a disaster.

The big problem I think that we have in trying to put the emphasis back to the private sector is, I read an article in *USA Today* the other day that said through the first 3 months of 1994, the insurance industry has already exceeded the total amount of catastrophe or weather related losses that they incurred in the entire year of 1993. The crop insurance industry is a very small segment of the overall insurance industry. There is not a lot of capital and surplus invested in this. There has not been a lot of return, as even at the \$1.51 you suggested for the overall. And there has not been a lot of appeal to invest money and surplus into crop insurance companies, as such, because the return is not there.

I think that the only way we can make a program work is with the assistance of the Government through the FCIC, through a streamlined reinventing the Government that the Vice President has suggested, to get it down, to get the FCIC into a management role and allow the private sector to contribute more, because we do have the facilities, the ability to provide input into rate-setting, guidance along those lines, to develop new products.

I have a real difficulty of going to the 85 percent as in the bill, as well, because I think if you take a bell curve, once you get closer to that overall risk, you are just going to terribly increase the over-amount of losses that we have. That was a little sidelight, I guess, as I got away from it, but I just do not think that a successful program can be accomplished without catastrophic protection of the Government, as well as subsidy, to make sure that there is participation to keep the people from coming back for the ad hoc assistance.

Senator LUGAR. I appreciate that. Obviously, for each of you, if you want to pursue this particular thing, we will try to make available some copies so you have a chance of analysis. It is very difficult to do off the top of your head.

Mr. GIBSON. I would very much like to see it.

Mr. CONNEALY. I might make a comment. In regard to the loan portfolio, out of a \$1-billion-loan portfolio, we sometimes lose sight of the value of the conventional existing Crop Insurance Program. Out of roughly a \$1-billion-loan portfolio, if it was not for the conventional existing system of crop insurance, it would be reduced roughly in half. The loans are rated 1 through 7, 1 being the best. That would be Michael Jackson or Kirby Puckett or perhaps a U.S. Senator.

[Laughter.]

Seven being the worst, four, five, six, and seven are extremely leveraged, reliant on crop insurance and the existing crop insurance, being that is what we have come to use and come to realize from a value standpoint.

Senator KERREY. You are saying at Norwest you have a \$1 billion in your loan portfolio, is that what you are describing?

Mr. CONNEALY. Roughly \$1 billion of ag loans.

Senator KERREY. Of commercial loans, commercial ag loans. Without crop insurance, you are saying it would be reduced by 50 percent?

Mr. CONNEALY. Our guess would be half.

Senator LUGAR. That is a very important point.

I think all of you see the dilemma that we are trying to work on here. Essentially, the Budget Committees decided that the public as a whole is going to make a transfer payment to American agriculture of \$1 billion-a-year, and that is represented by the underwriting of crop insurance as it is.

Maybe the public will decide that a transfer payment ought to be made of more than that. In other words, they may simply feel that the general objectives of stability in agricultural areas of small towns in the country, any number of arguments could be made as to why money ought to flow, and this may be a vehicle for making that redistribution of the Nation's wealth.

My guess is most taxpayers do not know of the original transfer, quite apart from the subtleties of what might occur, and they count upon some of us to ask these questions and hold us accountable sometimes for failure to do that. This is why we are about to enter into a very substantial program of lasting importance for American agriculture, but also with regard to the budget of the country. I am wrestling, as I know Senator Kerrey is, with how do you do this in a responsible way.

My guess is the psychology of many people that I know in agriculture is that if disaster comes, the Congress still will provide. We are talking in terms of that is not necessarily so, and we have sort of predicated the thought. We have a subsidized crop insurance program plus disaster almost every year now, and somehow we think that probably is not going to work out very well, but we are not sure how to get off of that particular trend.

But there may still be a gut feeling out there, when push comes to shove, disaster relief will come likewise. Furthermore, what I have noted, at least in the last 5 years, is the extension of that disaster to as many as some have estimated 500 different situations, most of them not measurable yields or planting or anything. In other words, we are really flying blind, and this program is moving along a track in which all of these will be covered, whether we have the data or not, whether the administrative apparatus is very sound.

Even after we heard testimony of a particular problem in Georgia, and that State should now be recognized as particularly difficult, but it is just one that came to light in which people did not do very much planting and collected the money. So we know that kind of thing is possible in America, and many people get very angry when they hear about it. But how in the world anybody running this program could prevent that, I would be hard pressed to find, because we are not geared up for that.

You know, with all of those thoughts in mind, would you narrow all of this to the program crops or two or three more things, or does equity say everybody doing anything in American agriculture of any sort, after all, has equity in front of this question, and whether you can measure it or know about it, you pay? Does anybody have a thought about that?

Mr. MURRAY. Senator, I think you have flagged a very important aspect of this program. It may be a tribute to the law of unintended consequences, when we try to do something good in one fre-

quency and then create an enormous obligation to the Government that was not anticipated down the line.

I would commend for your consideration the history of the Food Stamp Law. In its early days, there was a provision in the Food Stamp law that said this was not an entitlement, but it was subject to annual appropriations, and then every year or so the Congress would raise the ceiling, because there is enormous demand for food assistance amongst the needy. So there was a handle, though. All those years language in the appropriations section said if the appropriation is not adequate to fund the benefits at the level provided in the law, that there would be a proportionate reduction somewhere in the system to stay within the annual appropriations ceiling.

As time went on, that was removed. That was removed in the 1980's, and the Food Stamp law was turned into a pure entitlement, and it was one of the reasons that it has grown as large as it has. So that device of an appropriations with a ratchet provision might be something you would want to consider for this kind of a bill.

Senator LUGAR. Mr. Murray, I am acutely aware of the history you are reciting, because, as a freshman Senator still believing that somehow or other you had budget control even over Food Stamps, I suggested 1 year that the appropriation be just \$12 billion, and that the Secretary report monthly how we were doing. Well, he reported monthly and we were always doing badly. That is, we were spending faster than \$1-billion-a-month, and we finally came down to the 10th month, the Appropriations Committee just simply passed a supplemental and said whatever it takes. Finally, the Ag Committee, in its wisdom, just repealed the whole business and said it is in the Treasury, it is a main line situation and that is that.

I think that would likely to be the case with this. This is why 15 years later we have taken another look at this situation, which could be a very, very large expenditure.

Mr. MURRAY. The other device would be to put a sunset on it, to make it expire, so that Congress would have to react again.

Senator LUGAR. In any event, Mr. Chairman, I appreciate your indulging me in trying to query this. I think these are some questions that I would like to hear resolved a bit better, before we move on to a markup of this bill.

Mr. GIBSON. I have one other comment, Senator, I would like to make. In the past 2 days, we have been meeting in Kansas City with Manager Ackerman and his staff, and this is in regards to the nonprogram crops or the program for those crops that are not being covered by the FCIC at this particular point. I think that is a very significant issue and one that needs to be covered.

Out of that, the suggestion was made to Mr. Ackerman that possibly he look at the administration of those nonprogram crops through a crop insurance program, asking for an administrative fee much as the catastrophe policies in prior signup, and I think you might get some regulation or some control over that by utilizing that type of system, as opposed to an after-the-fact signup.

Senator KERREY. Thank you, Senator Lugar.

Let me get into this issue of linkage just a little bit. From my discussions with the commodity groups, I have been surprised to discover and most of the farm groups have been surprised to discover enthusiasm for the general idea of some kind of linkage.

Apropos of the line of questioning that Senator Lugar just had as one possible way not only to provide an incentive for purchasing up, but perhaps some way to provide a check on this thing, becoming open-ended, I am wondering—and perhaps it would be the Farm Bureau and Farm Union that ought to give the answer—whether or not the idea of connecting this to advanced efficiency payments would have any merit.

Mr. MURRAY. Let me take a shot at it first. There are different devices that could be used. You could use the soybean origination loan system or you could use the linkage that is in this bill or tied to deficiency payments or tied to some other benefits that the farmers get and have a checkoff, so that it is less painful in terms of contribution.

But we think that it should be left voluntary, and that the revenue that the Government gets from a popular and attractive program would be substantially the same as it would be using linkage as a mandatory device.

Senator KERREY. You are saying that the law should provide the Secretary the authority, but not require linkage?

Mr. MURRAY. One step further, so that the grower or the farmer or the participant would decide that, not the Secretary, that it be a choice for the individual farmer to say whether he will or will not get into the—

Senator KERREY. You are saying that the Secretary should not even have the authority to link?

Mr. MURRAY. Of course, if he has authority, he might do it.

[Laughter.]

Senator KERREY. I am asking you. We could get into an interesting discussion of what you think the Secretary should have the authority to do, but I am just trying to ascertain your position. Your position is the Secretary should not have the authority to require linkage?

Mr. MURRAY. Probably the current atmosphere would be no, because the current Secretary has already indicated in his legislative proposal, and the administration is on record to do it, so if they had the authority, they would do what they asked the Congress to get authority to do.

Senator KERREY. So if we could change the Secretary, you would support linkage?

Mr. MURRAY. For 4 years.

[Laughter.]

Mr. MCGINNIS. Let me say that I think everybody sitting around this table agrees that for crop insurance reform to work, it takes numbers. I think I can speak for my State and some others, you know, that if it is not required to the linkage, the numbers are not going to be there.

Senator KERREY. How do you feel about tying it to advance deficiency payments, perhaps requiring, in order to get an advance de-

iciency payment or perhaps providing a higher advance deficiency payments for those who buyup?

Mr. MCGINNIS. That would be okay, but there still are not going to be the numbers that way, as opposed to the way the administration has proposed it. I just think that 80 percent is pretty high. Some people have said, well, you save that 20 percent, you know, they are not going to participate. Well, 80 percent is "*pretty dog-gone high*." In my State right now and some of the States, you only have 10- to 15-percent participation. There is no way that I think this program can work, unless you have a high participation.

Senator KERREY. Well, you could still require some additional linkage. I am asking you whether or not you think that using the advance deficiency payment as an incentive would be an attractive way to provide additional incentive, as well as—

Mr. MCGINNIS. Possibly, yes.

Senator KERREY. Mr. Bergman?

Mr. BERGMAN. In that area, whatever the incentive is, we would support it, I guess. Because our testimony is that we believe it should be a benefit of the program, but also be required as being part of the program.

Senator KERREY. Senator Grassley?

Senator GRASSLEY. The reason I was going to get in right now, I would have asked the question similar to yours. I would like to ask as a followup, we learned last week that they expect 80 percent to participate under the mandatory provisions, and it takes about that large number to make it work. I know Hyde would have been one, but the people that said that they do not support the mandatory provision, do you think that you would get those numbers without them? And if you do not get those numbers, are you then still of the opinion it would work?

A second question may be just a little bit different, but is this enough of a litmus test issue that it would keep your various organizations, if you do not like the mandatory provisions, from supporting the bill otherwise, if that was the only thing that was in the bill you did not like?

Mr. MURRAY. Do you want me to comment?

Senator GRASSLEY. You for sure, but maybe others want to comment. Go ahead.

Mr. MURRAY. I would say we would have to go back to the drawing board for policy. Farm Bureau policy is clear on linkage, so we would have to go through our clearance process that is as complicated as OMB and the Agriculture Department. As an organization, we would have to decide, but the thrust of the bill is very positive and the idea is very good, and we think that the voluntary participation would be pretty close to what forcing it by mandatory linkage would be.

Senator GRASSLEY. Do you feel the same way, Senator Kerrey, that they might get 80 percent with voluntary?

Senator KERREY. I am not certain of that. I am not certain of that. I guess I would be surprised, if you would.

Mr. MURRAY. The department I think thinks it is probably about 60 percent, 50 to 60 with voluntary. They do not feel it is enough. I guess unless you try it, you will not know.

Mr. CONNEALY. There is some train of thought that, as other farm program benefits fall, you will actually have a higher signup for the free 50/60 than you will for other farm program benefits. Because if you are a farmer in Montana with 1,000 acres of wheat, whether or not the Farm Program interests you or not, a free 50/60, for \$50, a substantial amount of coverage. Remember, most of them have been kissed one way or another over the last 10 years with a meaningful disaster payment, that they would say here is the \$50 and maybe forego the rest of the program.

Senator KERREY. That is right. It does, by the way, underscore in a positive fashion the statement Senator Lugar made earlier. The enactment of crop insurance could become 5 years from now more important than the Farm Program, and it could be of much greater importance to a producer than the Farm Program itself. I am not sure of that, but it seems to me—

Mr. CONNEALY. From the banking side, we consider it a far greater risk management tool than any set-aside program or deficiency payment or flex acre or any of those other programs, because it is certain, it is known and it is individual and it is based on the individual yield, too.

Mr. MURRAY. May I add a footnote to that? I would agree with that general thrust, too, but that is why it becomes so important not to establish a precedent for a means test, because once that starts and once it is lowered, it excludes large numbers of people and keeps them out of the actuarial base.

Senator GRASSLEY. My last question would be for Mr. Murray and Mr. Bergman. The thrust is that it will be very difficult for Congress to enact any disaster relief in the future. Do you think your members are taking seriously that, that there would not be, or do you think that is still in doubt out there and would keep participation from happening?

Mr. BERGMAN. That has been a difficult issue for our membership to resolve, but we have had this under discussion, as Hyde pointed out, since 1989, and we have come to the resolve, and I have stated it today, that we are supporting crop insurance reform and giving up the ad hoc disaster proviso.

I will just say, whether our membership in totality understands that, but we have a democratic process—maybe it is simpler in yours—but that was the resolve of the membership at the most recent meeting. So, yes, we would do that.

The first question you asked, Senator Grassley, was about the litmus test. We believe that crop insurance reform is important, it should go forward. One of these issues being a litmus test of our support, I do not think that we have that in mind, but we stated what we believe would work the best.

Senator GRASSLEY. Mr. Murray, as far as your members?

Mr. MURRAY. I think as far as the Farm Bureau and a lot of people in the rural areas, there is a healthy level of skepticism that the whole system would really work. That skepticism is reflected in the Budget Committee, it is reflected in Appropriations, and it is reflected in OMB. There is a wonderment whether this system really would be a bulwark against a massive disaster of some kind. Personally, I probably contribute to that skepticism by telling the story about Mr. Whitten, who one time said that every pencil that

they use in his committee has an eraser and every law they write in Appropriations has a chance to be repealed or changed the next time.

Senator KERREY. I appreciate that skepticism, Hyde. Unfortunately, we are dealing with an effort to try to improve the current situation. The current situation is unacceptable. We have done ad hoc disasters 8 out of the last 10 years, and the way that money is distributed is not only unacceptable from the taxpayers' point of view, but it contains many of the very restrictions, the means tested restrictions that you are objecting to in the crop insurance.

I mean the current Disaster Program has got to be changed. You know, democracy is hardly perfect, as the man said, but it is certainly the game that we have to play with here right now. I appreciate the skepticism, but far more skepticism would be warranted, it seems to me, if we merely throw up our hands and say, well, let us just continue ad hoc disaster.

Mr. MURRAY. I think you make a good point, and the present system is not adequate, either, and our policy clearly is to merge disaster and crop insurance together and struggle for actuarial soundness. That is why I hope we leave you with the feeling that we have a positive feeling about the legislation and want to work towards enhancement and improvement.

Mr. GIBSON. Mr. Chairman, I guess I have kind of a little bit of question on your deficiency payment. Are you saying that the advance or an increase in the advance deficiency payment would be tied as an incentive to buyup to the additional coverage?

Senator KERREY. Yes.

Mr. GIBSON. If that was done, then you actually have collateralized that pay-back by the crop insurance protection.

Senator KERREY. That is correct.

Mr. GIBSON. I would like to make just a couple of other comments to Senator Lugar. One of the things prior to 1993 which was a disaster, I would say that we have seen some significant improvement in the loss ratios. They have been trending down, that FCIC has been implementing some new actuarial tables. I think it is something called concentric rating system, and they have been coming down. 1993, though, blows everything out of the water.

Again, I think we have to look at some of those regional systems and regional areas and regional crops that have contributed significantly to that. Maybe in some cases those areas are going to have to be subsidized as long as agriculture is in those areas at a higher level.

Senator LUGAR. Do you have data that would be helpful in sharpening the focus of the committee? It may be that FCIC has all the data that is relevant to the situation. It just occurs to me that maybe others have figures. To say the least, we are not flying blind, but we are coming at this without maybe an understanding of exactly what you just said.

That is, there have been changes in the loss ratios, and in fairness, that ought to be encompassed in what we are saying. Maybe 1993 was so totally out of sorts, that if you include that even in a scheme of 1981 through 1993, it may skew it, depending upon which selection you make. I am really seriously interested in any data that anyone has that is relevant to this.

Mr. GIBSON. I think it is really difficult to look over the prior years, because there have been a lot of mandates that have been made to the program. Number one was in the 1980's, it started with completely enroll anybody, everybody, advance the number of crops, the number of programs, the number of country programs. It was almost uncontrolled and, as a result of that, I think there were ratios and losses that probably were out of hand.

In recent years, the FCIC has taken steps to implement new rating procedures and to bring those ratios down. In a catastrophe such as 1993, I am not sure that you can really hold those in the actuarial base, is what I am saying.

Senator KERREY. I appreciate the witnesses' testimony and your input. We have before us, it seems to me, an administration bill that gives us an opportunity to present to the half-a-million or 600,000 or so full-time producers out there, and maybe more, if we are not careful, an opportunity to manage their risk in a much better way than through ad hoc disaster.

I would caution all those who are here who are enthusiastic about the detail of the legislation that my effort will be to guard against converting the Crop Insurance Program from an effort to provide farmers with a means to manage their risk into an open-ended entitlement that removes all risk. I think it is very important for us to do that, and to that end we are going to have to advance in a pretty methodical way what our principles are here. Regardless of what this committee does in reporting out a piece of legislation, I think we will find ourselves with a Senate with a considerable amount of skepticism and confusion, and perhaps in the end unwillingness to enact the legislation.

Mr. MCGINNIS. I would like to make one final comment, and I think you kind of touched on this, Senator. This was the fact that, as a farmer, we look back at every farm bill, our program crop moneys are being cut and we look probably of seeing a cut in this new Farm bill, and as we look down the road, it is going to continue to be cut. As we go to a bank and try to get a loan, you know, and the banker looks at this continued cut, we see this Insurance Program or Reform Program as maybe to fill that gap, so we can go back and get a collateralized loan.

Senator KERREY. I hear what you are saying, Mr. McGinnis. I hear a lot at home, and that is people are saying it has gotten to be easier to manage the risk of floods and hail and wind and so forth than it is to manage against the risk of decisions that are made by our own Government. So it does seem to me, again, to underscore the need to keep this product as neutral as possible, that is to say provide the producer with a tool and let them measure the risk. Their measurement of risk is going to be a lot better than my measurement of risk.

Mr. MCGINNIS. As far as the 85 percent, I think someone said that probably would not be actuarially sound. I think it needs to be based on the fact that it is actuarially sound, and if the farmer wants to pay the price, then he will pay it.

Senator KERREY. I have statements from Senator McConnell and Senator Cochran. I will put them in the record.

[The statements of Senators McConnell and Cochran follow.]

STATEMENT OF SENATOR MITCH McCONNELL

Mr. Chairman, when the Federal Crop Insurance Act of 1980 was enacted by Congress, it was looked upon to permanently replace direct Federal disaster payments as the primary risk management tool for U.S. agriculture. During the last 14 years, Congress has tried to improve and make adjustments to the Crop Insurance Program with limited success.

Yet farmers, Congress, policymakers, and taxpayers continue to be dissatisfied with the program and this has led to the enactment of ad hoc disaster assistance legislation.

The 1993 legislation marked the 7th year that ad hoc disaster payments were necessary. This has caused many to argue that the FCIC has not met the expectations that it would permanently replace direct disaster assistance. Members of Congress and taxpayers continue to question the Crop Insurance Program, saying we can not continue to fund FCIC and annual ad hoc disaster assistance.

Crop insurance has had a tremendous aggregate economic value. The program has performed for participants, regardless of whether their disaster is individual or regional in scope. In 1994, the demand for crop insurance has increased, as it generally does following disasters.

The question we need to address is how to develop a program to meet the needs of our agricultural community that will be both compassionate to our farmers and fair to taxpayers.

The Administration has launched an effort to reform the FCIC by combining the ad hoc disaster payments into an improved crop insurance program. The Department of Agriculture estimates that about 80 percent of the major crop acreage in the United States would be insured with an improved program.

Farmers view the policies as too expensive, lacking in adequate coverage, and fraught with administrative problems.

Maintaining a strong crop insurance program is very important to farmers. The program must be flexible to provide producers an opportunity to develop a program that meets their specific needs. The program should be available to all agricultural commodities including specialty crops.

I look forward to comments from our group of witnesses on how we, as legislators, can work with the agricultural sector and the administration to overcome the hurdle of ad hoc disaster relief and provide farmers a flexible risk management program.

STATEMENT OF SENATOR THAD COCHRAN

Mr. Chairman, thank you for calling the hearing today on this important subject.

As I stated at our full committee hearing last week, Mr. Chairman, this committee has been involved in the passage and implementation of numerous ad hoc disaster bills to meet the needs of farmers suffering from adverse weather conditions. Farmers are always at risk from the unpredictability of weather conditions. Without some form of crop insurance or disaster assistance, these risks must be born by the farmers, their lenders and their communities. Adequate disaster assistance is of vital importance to the thousands of rural communities throughout the Nation whose economies are dependent upon a healthy agricultural sector. It is my hope that we can develop a crop insurance program which is fiscally responsible, while providing consistent, adequate protection for all farmers when crop losses occur.

I feel the administration's proposal merits our careful and serious consideration. However, I am concerned with the large number of farmers the administration is predicting will not participate under this plan. If we are attempting to combine disaster programs and crop insurance, I hope that we can provide coverage for all farmers in the Nation.

I look forward to the testimony of our witnesses and working with the subcommittee on these issues.

Thank you Mr. Chairman.

Senator KERREY. I also have a statement by Senator Feingold which will be made a part of the record.

[The statement of Senator Feingold follows:]

STATEMENT OF SENATOR RUSSELL FEINGOLD

Thank you, Mr. Chairman.

Every member of the Agriculture Committee who is from a flood affected State knows all too well that the current system of ad hoc disaster assistance and sub-

sidized crop insurance is in great need of repair. I also know that all of our witnesses here today are painfully aware of that fact as well.

It has been my impression, as I have travelled around the State, that there is no one more willing to sacrifice ad hoc disaster assistance for meaningful crop insurance than a farmer affected by the floods of 1993. They were frustrated by the uncertainty of Congressional action, by complicated disaster formulas and the length of time it took to receive those disaster payments. Last year, the Congress did not even determine the disaster assistance payment rate for farmers until early August, for damage caused by floods that began in June. It is pretty hard to tell a farmer that he or she is not going to get those badly needed dollars for several months simply because the Congress hasn't gotten around to it yet. We need to eliminate unpredictable disaster assistance and create a risk management program that is reliable and equitable to all farmers.

The Administration's proposal seems to go very far towards achieving that end. But I think we all need a little more information.

I want to commend the Chairman for holding this hearing to further explore this proposal. It's important that we hear from those farmers who are directly affected by crop insurance reform as well as those who be delivering the new program. I look forward to the testimony of our witnesses and I thank them for their willingness to take the time to testify before this committee.

Senator KERREY. Senator Lugar, do you have anything else?

Senator LUGAR. No. Thank you, Mr. Chairman.

Senator KERREY. This hearing is closed.

[Whereupon, at 11:57 a.m., the subcommittee was adjourned.]

A P P E N D I X

PREPARED STATEMENTS

Robert McGinnis

Thank you, Mr. Chairman for the opportunity to testify on behalf of the major commodity organizations on the Crop Insurance Reform Act of 1994. My name is Bob McGinnis and I am a cotton, rice, wheat and soybean producer from Marianna, Arkansas. On behalf of our organizations, we commend you for holding this hearing. The concept of crop insurance reform is something we have wrestled with for many years. Reform is essential if this program is to effectively replace disaster relief and entice more participation.

The Commodity groups support the concepts included in the Secretary of Agriculture's Crop Insurance Reform proposal. Obviously, the devil is in the details. I must caution, however, that producers are skeptical that a workable crop insurance program can be developed. That is why it is critical that this committee and FCIC's staff continue to listen carefully to regional concerns and develop provisions that truly make the Crop Insurance Program useful. We cannot design a one size fits all policy.

We all actively worked this year in the budget process to secure full funding for the plan which will eliminate the uncertainty of ad hoc disaster availability and provide producers with 50-percent yield coverage at 60 percent of the average market price for crop losses due to prevented planting and losses of yield. USDA and OMB assert, and we agree, that producers are better off under this proposal than under a disaster bill at a 50-percent prorate. We are also encouraged by the reduced premiums for higher coverage levels.

While still skeptical of the precedent, producers have generally accepted the "voluntarily mandatory" aspect of the catastrophic coverage of the reform plan as required for farm program and FmHA participation with a \$50 per crop processing fee. We understand the reason for linkage, however, we must strongly emphasize that the \$50 is to remain only a nominal processing fee and is not to be connected to risk, acreage, or crops. The plan provides for an option for producer to buy the basic level of coverage at his local Farm Service Agency or through private insurance agents. We support this option for producers both since the program is mandatory and to fulfill the promise made to farmers of "one-stop shopping." "Buyup" coverage and supplemental products would only be available through private insurance agents. While our groups industry support the administration's catastrophic program as the principal mechanism for reform, we also maintain that flexibility with different coverage options is necessary to increase participation and meet specific regional and crop needs. The remainder of our testimony will address mutual commodity group concerns.

Since most farmers would be interested in the higher levels of coverage, we would urge further consideration be given to reducing the cost of higher levels of coverage. The 50/60 coverage by itself is simply not adequate for even the best producers since profit margins in agriculture are so thin. FCIC should develop options for consideration that would encourage producers to "buyup" to the 65-percent or 75-percent

level. Our groups would be happy to work with FCIC and the committee to develop this idea as an option to pursue during reform.

Extensive debate has already occurred over who delivers the catastrophic coverage in the reform package. We are comfortable with the proposed dual delivery system. We believe the existence of private and public delivery will guarantee widespread, well serviced, delivery of catastrophic coverage. We would challenge the critics of public delivery to out-service and out-sell public delivery systems rather than try to politicize the issue.

The commodity groups believe that the proposal should include a catastrophic yield adjustment when calculating actual yields during disaster years. Administrative efforts to comply with Congressional mandates to reduce loss ratios have relied to a great extent on the use of actual production history, a concept we support. Unfortunately this concept makes no allowance for disasters and, in fact, severely reduces the coverage for a producer through no fault of his own. We believe a solution can be developed that makes adjustments for multiple disaster years without compromising the integrity of the APH Program.

Our groups understand the interest in expanding FCIC coverage to new crops. However, in cases where there is not a reasonable method of determining production history we do not want to see limited resources spread too thin while the program is still inadequate to meet the needs of the seven commodities that comprise 75 percent of the existing crop insurance business and most of the potential new business. New coverage should be limited to commodities with adequate production history and proven yields.

The reform effort must address the way FCIC determines price elections for various crops. This issue will require careful consideration. Since commodity prices are cyclical and subject to change due to weather conditions, imports, and other variables, adjustments should be made to MPCIC price elections during the marketing year. We suggest that public input into this process be allowed by requiring FCIC to request public comments on this and other program details through the FEDERAL REGISTER and conduct a public rulemaking process.

Another suggestion that would enhance insurance reform would be the addition of a harvest incentive or de minimis yield clause when determining losses. Currently disaster programs contain provisions that allow crop production to be zeroed out without harvesting if production estimates are less than harvest costs. A similar provision is needed for crop insurance. However, to prevent inaccurate estimates of production, the application of harvest yield costs need modification. One method would be to allow producers to harvest a crop and receive credit for the harvest cost. That is to say, a producer would not have to count the production equated to the cost of harvest against any loss. This would provide an incentive to harvest. Consideration could also be given for third party verification on zero or disaster yields. This would strengthen the credibility of the program and improve loss histories. In—addition to improving the program, harvest incentives benefit the processing and marketing industry segments.

FCIC is to be commended for their continued evaluation of optional products that enhance the value of crop insurance to the producer. One of the points made at many of the regional meetings was the need to have programs that entice nonusers of the current program. We are encouraged with disaster assistance programs such as price insurance supplements and group risk programs. One concept that is particularly interesting and is included in a bill introduced by Senator Heflin is a program based on insuring cost of production. FCIC is in the very early stages of developing this concept as a pilot. In the event of a disaster loss, an individualized approach to insuring revenue losses relative to some level of cost of production will be attractive to many regions of the country currently not utilizing crop insurance programs. We have received encouragement from FCIC Manager Ackerman to continue to pursue this approach, and such work is underway. Producers also point out the need to provide lower premiums for producers with good loss histories or with lower risk operations. FCIC formerly had a "good experience" discount but discontinued the practice. We recommend that this practice be reinstituted. Participation would increase if these matters received attention.

Often losses in crop quality are more economically devastating than production losses. Improvements in the quality adjustment provisions for program crops are needed to make it more effective. USDA has developed a universally-accepted classification system that very accurately describes the quality of our product. Upon review of the current quality adjustment procedure, we believe a better utilization of this classification system rather than spot price differences would better reflect quality losses. We think this is an area where we can actually save the program money by better insuring quality losses due to damaging weather.

There are still questions about how such terms as farm, field, county, and so forth, will be delineated in the catastrophic coverage. We realize that unit coverage is not offered at the catastrophic level because of budget reasons, but we hope that unit coverage can be offered by private companies as an incentive to buyup from the 50/60 catastrophic level.

For crop insurance reform to be successful, credibility must be restored to the program. Abuse of the program must be minimized. This is particularly needed in the loss adjustment procedure. FCIC recognizes this liability and is seeking ways to strengthen its oversight. We support effective oversight to producers, agents, and companies so that benefits accrue to those who deserve it.

Thank you again, Mr. Chairman, for allowing me to present testimony here today on behalf of general commodities organizations. We have a vested interest in a workable program both as farmers and as taxpayers. We have received good cooperation from FCIC on our concerns with the administration proposal and we look forward to working with this committee on crop insurance reform. I would be happy to answer any questions that you or the other Senators might have.

Richard C. Gibson

RE: REGARDING THE FEDERAL CROP INSURANCE REFORM ACT OF 1994

Mr. Chairman, and Members of the subcommittee, thank you for the opportunity to present our views on S. 2095, The Federal Crop Insurance Reform Act of 1994. These views are expressed on behalf of the American Association of Crop Insurers (AACI), a voluntary membership trade association of the private crop insurance industry. Our association consists of insurance companies, private reinsurers, local crop insurance agents and adjusters.

I am president, and chief executive officer of American Agrisure, Inc. of Council Bluffs, Iowa which writes Federally reinsured multiple peril crop insurance (MPCI) nationwide as well as private crop hail, and several supplemental crop insurance policies. Our parent company, Redland Insurance, also writes Federal flood insurance, and virtually all lines of insurance. I am currently serving as chairman of Government Relations for AACI. AACI members write over 60 percent of the U.S. MPCI policies that provide peace of mind for over 700,000 policyholders.

THE OPPORTUNITY

We find ourselves presented with perhaps the greatest opportunity of all time to improve the Crop Insurance Program. Finally crop insurance can be established as the sole means of providing producers with financial protection against crop disasters, as it was originally intended to be following the 1980 Act. At no time has there been such a consensus for reform or an apparent willingness to merge the ad hoc disaster payment approach into an improved crop insurance program as was the original intent.

We commend the administration for putting this package together and for choosing what is undoubtedly the best policy approach for addressing crop losses—insurance.

AACI worked very hard with Senators and Members of Congress and the administration to secure full funding for the administration's proposal. We commend you for taking the bold step of providing the funding and thank you for your role in convincing other Senators to do the same. It was the right step to take for farmers and taxpayers alike.

NECESSARY CHANGES

In order to help the program achieve its maximum effectiveness, we feel that a number of refinements need to be made in the proposal. We have broken these down into primary and secondary issues and would like to concentrate on the primary ones within this testimony. Those issues we feel must be addressed in the legislation are the following:

1. Regulatory and Paperwork Reduction
2. Dual Delivery
3. Reasonable Rate of Return on Capital
4. Program Delivery Expense Adequate to Cover Functions Required
5. Some Provision for Litigation Support/Indemnification
6. Administrative Fees

7. Prohibit Optional Insurance Units on Catastrophic Policies

A list of other issues which we believe could and should be addressed in the legislation follow the text discussing the above primary issues.

A NEW MINDSET—PROGRAM SIMPLIFICATION

No matter what legislation is passed by Congress, a reformed crop insurance program can only reach its objectives. If there is a completely new mindset on all facets of the program on the part of USDA (FCIC/FSA), the companies, farmers and Congress. We must focus on a greatly simplified program both for the catastrophic coverage and additional coverages that will be available. A new program in the old package will not work. A completely restructured program in both appearance and function is what it will take to convince farmers that real reform has happened.

Overall, we believe that there could be at least a one-third reduction in the administrative requirements of the Crop Insurance Program without adversely affecting program performance. Unless USDA (FCIC/FSA) is willing to work with the industry on completely evaluating the need and existence of all current administrative burdens neither the current program nor a reformed program can be delivered in today's restrictive budget environment.

Farmers are our customers. Therefore, we want to make the program as easy to understand and as simple to participate in as possible so that we can maximize farmer participation. At the same time, a simplified program reduces the Government's expense as well as that of the companies involved.

The principle of simplification should be foremost in the formulation of the catastrophic level of coverage. However, it is vitally important and wholly justified that whatever simplification measures are adopted for the catastrophic level should also flow through the rest of the program as well. Otherwise, a major disincentive for participation at higher levels of coverage will be created and the opportunity to reduce program costs will be foregone.

Reduction of the Program's Administrative Burden. Faced with shrinking reimbursements to cover operating and administrative costs, most reinsured companies have streamlined operations to the maximum extent possible. However, we have reached the point where your options for operational changes are limited by the program. Companies end up being forced to spend limited resources on crossing "i's" and dotting "t's" instead of on innovative new crop insurance products, improved farmer services, and creative marketing to increase farmer participation.

There are a number of existing program requirements and paperwork burdens that will remain in the reformed program that could be altered for the benefit of all parties involved in the program without adversely affecting program integrity.

What we have been experiencing in the last few years is regulation for regulation's sake and not based on performance. We are in favor of strong oversight. However, that oversight should be: timely; cost effective; and carefully structured to achieve measurable performance objectives.

As we contemplate adding approximately 1.4 million participants to the program, the streamlining and reduction of the administrative burden for FCIC, the companies, the agents, and the participants, becomes even more vital. We are developing a list of suggestions for the reduction of administrative costs that run the gamut from a simple requirement to require more timely releases of program information to eliminating separate acreage reports to more refined data processing. *Overall, we believe that there could be a one-third reduction in the administrative requirements of the Crop Insurance Program without adversely affecting program performance. We hope that the subcommittee will seriously consider such a reduction as part of the reform package.*

Alteration of Coverage Levels Needed. There is some complexity in the administration's proposal as it relates to levels of protection that we believe: is unnecessary; adds confusion; and adds administrative costs to the program. The proposal contains three classes of protection: the 50/60 catastrophic policy; policies between 50/60 and 65/100 or its equivalent; and policies equivalent to 65/100 or higher. The provisions regarding the middle range of policies need improvement.

For simplification purposes, it may be advisable to only provide a 50-percent yield, 100-percent price election policy as the next step beyond 50/60. This is a significant increase in liability protection for the farmer, especially when one considers that optional units are available at this level, while only costing a minimal amount.

Furthermore, the subcommittee may wish to set a floor under protection at the 65- and 75-percent yield levels that is nearly equivalent with the 50/60 catastrophic policy in terms of dollars or protection. While we need to provide farmers with a

variety of coverage choices, there is no need to offer less than is being given away for a minimum application fee.

Nonstandard Classification System. There is much concern in many areas of the country over the Nonstandard Classification System (NCS) and its impact on farmers. We believe that the catastrophic level of protection should be a bottom-end safety net for all farmers below which they should be forced to go under NCS or any other program.

PROGRAM DELIVERY—THE PRIVATE SECTOR ROLE

I feel confident saying the Crop Insurance Program as it exists today and as it is proposed to be reformed, cannot be provided to farmers in an economically efficient manner nor with the service that farmers have come to expect and which they deserve, without the private sector delivering and servicing the program. A tremendous network of private sector individuals has been built over the last 13 years as well as a tremendous investment in capital equipment to sell and service crop insurance. The Administration's plan both relies on this system but also could potentially undermine this system.

It relies on that system, as it should, in providing that additional protection above the catastrophic protection, will only be available from the private sector. Currently, over 93 percent of Federally reinsured multiple peril crop insurance is sold and serviced by the private sector. FCIC has admitted it can no longer afford the fixed cost of 24 percent of its personnel being devoted to 7 percent of crop insurance policies and thus it is passing out its direct delivery operations. However, the administration's plan turns right around and mandates the establishment of a new fixed cost government delivery system that we believe is unnecessary, costly, and potentially adverse to the overall objective of crop insurance.

There is no doubt that universal availability of a catastrophic coverage at little or no charge, by itself will not be sufficient to adequately protect farmers. Rather, significant participation at greater than catastrophic levels of protection is necessary to adequately protect farmers. We believe government delivery will frustrate and could potentially undermine the effort needed to have farmers buyup coverage above the catastrophic level. Like several Senators expressed in the full committee's earlier hearing on this proposal, we also believe that preservation and potential augmentation of the subsidies for buyup coverage must be a top priority of this subcommittee.

We are in strong support of the administration's proposed reliance on the private sector for delivering all higher level coverage crop insurance policies. This maximizes the impact of limited Federal dollars and recognizes the preference and convenience of farmers in obtaining insurance coverage. The reestablishment of a government delivery system, however, causes some problems that we believe need to be addressed to make the reform proposal work. We believe the provision for dual delivery:

1. Could threaten the success of the reformed program;
2. Is unjustifiable in terms of cost and performance; and
3. Is inconsistent with both the current crop insurance statute and the reinventing government initiative of the Clinton administration.

ESSENTIAL QUESTIONS

Our judgment is that if all costs are captured, the private sector can deliver and service crop insurance policies more cost effectively and efficiently than the Government with both parties playing according to the same rules. Therefore, we believe the Members of this subcommittee should demand to know the facts about the cost of delivering this program through the Government. There are a number of questions which if we were sitting in your place, believe need to be answered:

1. What are the costs of this Government dual delivery system:
2. How much will it cost to train and license FSA employees across the country to perform the tasks required of them?
3. If no additional funds are provided to ASCS or FSA to undertake this new proposal then how much of existing resources are going to be diverted to accommodate this? This would have to occur unless there is a significant amount of over staffing or over funding currently in existence in the FSA system.
4. What will be the impact of this dislocation of resources on the current services and responsibilities of ASCS and FSA to farmers across the country?

We believe these types of questions need to fully evaluated.

Need for Counseling. The catastrophic protection alone, which approximates the benefits of ad hoc disaster programs of the past is good, but not sufficient to save the farm for most growers when disasters occur. Therefore, the core issue that will determine whether farmers are adequately protected is whether they do, in fact, purchase additional coverage to meet their risk management needs. We strongly believe that professional counseling to quantify risks and match them with the right insurance coverage is indispensable for this program to succeed. Private sector, professional insurance agents are trained, licensed, and in place to perform that task as they do with all other consumer risk management needs.

For most growers, they will entrust the same professional insurance agent for their crop insurance that they trust to help with their other farm insurance plans. These insurance professionals often meet customers at their kitchen table and are able to develop a comprehensive package of farm and crop protection. Government employees are simply not trained, nor should they be, nor do they have the time to attempt to perform this essential duty.

Alternative 1: Government Involvement On Only An "As Needed" Basis. Due to the fixed costs of a government infrastructure, serious consideration should be given to identifying areas of the country in which there would be no backstop USDA delivery due to the presence of sufficient private sector insurance agents. This is what Senator Kerrey advocated in last week's hearing with Mr. Ackerman. Government availability of catastrophic coverage would only be needed to address instances (if any) where private insurance agents are not available. This could save hundreds of millions of dollars in government administrative overhead. At the same time, this will best meet the risk management counseling needs of farmers through a private insurance agent. Being adequately covered is much more than filling out a form after standing in line at the FSA office. It is a complex decision for which professional counseling should be provided and which private agents are best positioned to provide.

Alternative 2: Delivery "Point" Versus Delivery "System." Another option to consider is that while the USDA office may be a delivery point, the Government need not develop a costly and inefficient delivery system infrastructure to back that delivery point up. Rather, the policy obtained at the USDA office could be serviced by the private sector infrastructure already in place.

Alternative 3: Visit An Agent First. A final option to consider is requiring a farmer to visit a private crop insurance agent prior to being able to obtain the catastrophic coverage at the local USDA office. This would meet the public policy objective of insuring that all farmers have been fully informed and counseled on their risk management needs.

Reinventing Government. Finally, if we are serious about reinventing government, then there is no better place to begin than the Crop Insurance Program. First of all, we are hitting the ground running because we already have a public/private partnership in place. Second, we have an existing statutory mandate to utilize the private sector to the maximum extent possible—7 U.S.C. 1507(c). Third, as USDA is reorganized and field offices are consolidated and co-located, there is an existing private sector network that can deliver crop insurance—and even the noninsured standby disaster assistance—to farmers more conveniently, more efficiently, and more cost effectively than government. We need to capitalize on that opportunity.

A REASONABLE RETURN ON PRIVATE CAPITAL INVESTED

An integral part of program delivery is having a healthy private sector available to provide the level of service and competition that farmers want and deserve. The health of the private sector is greatly affected in the Crop Insurance Program by the risk sharing relationship it has with the Government.

FCIC Manager Ken Ackerman has indicated in prior testimony that not only did farmers lose big in 1993, but the private reinsured companies did as well at a level of approximately \$83 million in 1993. To put that in perspective, some companies' losses in 1993 exceeded their cumulative profits over the 10 to 13 years they have been involved in the program. An attached exhibit shows how the risk has increased over the last few years and far outpaced the gain opportunity.

The bottom line is that the opportunity for gain must be commensurate with the opportunity for loss. One has to understand that in a program with a historical loss ratio of 1.47, and one now with a long range goal of an estimated 1.1 loss ratio, the rates and programs are such that they build in a loss for companies. Therefore, the reinsurance relationship must be improved and the FCIA should require a reasonable opportunity for gain and should continue to take into account the financial condition of the companies.

ADEQUATE DELIVERY EXPENSE REIMBURSEMENT

There is language in the Federal Crop Insurance Act (hereinafter "FCIA") mandating that private companies be reimbursed at "rates of compensation consistent with those generally prevailing in the insurance industry" for functions performed—7 U.S.C. 1507(c). However, FCIC has always maintained that this language does not apply to standard delivery, servicing, and loss adjustment functions. We believe the FCIA should be amended to make the prevailing compensation rates applicable to all of the functions performed by the reinsured companies. We are not asking for anything special, just something that reflects reality and brings this Insurance Program in line with insurance practice.

There is also strong justification for some type of expense reimbursement supplement in years like 1995 when the industry will have to undertake a significant retooling of all their operations to accommodate a reformed program. Even in 1994, as this Summary of Changes for Spring 1994 Crops, reveals, we were required to implement a number of significant changes—especially the new Actual Production History (APH) requirements—that involved major retooling while facing a 5-percent cut in our reimbursement rate. Finally, if FCIC makes changes midstream within a crop year, they should be encouraged, perhaps through statutory language, to provide added compensation for these expenses which were not contemplated by either party when entering the SRA.

One has to understand that in a program with a historical loss ratio of 1.47, and one now with a long range goal of an estimated 1.1 loss ratio, the rates and programs are such that they build in a loss for companies. Therefore, the reinsurance relationship must be improved and the FCIA should require a reasonable opportunity for gain and should continue to take into account the financial condition of the companies.

SOME PROVISION FOR LITIGATION SUPPORT/INDEMNIFICATION

Claims of Loss. S. 2095 would restrict suits under the Crop Insurance Program to the U.S. district court. However, S. 2095 states that a suit against the "Corporation and the insurance provider" may be brought in U.S. District Court. This leaves a potential ambiguity regarding the situation where only the Corporation or only the insurance provider (most often the case) is sued. We would propose language to change the "and" to "or" and further emphasize the "only" nature of U.S. District court venue for these cases.

Litigation Support for Protecting Program Integrity. Private companies are often found in a situation where they are sued by farmers for a program decision over which the company exerts no decision making authority, they merely apply FCIC policies and procedures. In this situation, the Government should bear the cost of defending the suit. We believe some language should be added to the reform bill to establish some guidelines for handling these types of cases.

Errors and Omissions. S. 2095 would remove the current "hold harmless" errors and omissions language from the Act which indemnifies agents and adjusters for errors and omissions made by the FCIC that result in liability to the agent or adjuster. We believe such language should be restored and, with dual delivery, must also protect private insurance participants from errors and omissions on the part of FSA as well.

ADMINISTRATIVE FEE

While there is much debate about the level of the application fee and its equity with respect to large and small producers, we do caution the subcommittee about locking specific rates into the statute. As you know, this approach minimizes the flexibility of the department to respond to changing conditions without having to ask Congress to amend the statute.

PROHIBIT OPTIONAL INSURANCE UNITS ON CATASTROPHIC POLICIES

The restriction on the provision of optional insurance units of anything less than all acreage of a crop in a county is essential. The provision of units at the catastrophic level would be a major disincentive to buying up thereby frustrating the goal of having a maximum number of farmers adequately protected. In addition, it would greatly increase the costs of the proposal. The power and value of optional units as an incentive for buying additional coverage cannot be overstated—it is a tremendous and it must be preserved as only applying to additional levels of coverage.

SECONDARY ISSUES

The following are the other issues which we believe could and should be addressed in a wholly reformed program that will operate the most efficiently, cost effectively, and equitably for all parties involved.

1. Rewrites of levels of coverage:
 - a. 50/100 is only level available between 50/60 and 65/x;
 - b. No price election at 65-percent and 75-percent levels at less than 60 percent;
 - c. Full expense reimbursement on anything above 50/60.
2. Reinstate cap on FCIC/Departmental risk management employment.
3. Establish reasonable and timely parameters for oversight.
4. Provide guidelines for alternative, supplemental, and optional insurance products:
 - a. Regulations/guidelines to systematize the process;
 - b. Impose a test of private sector availability;
 - c. Must be a cooperative financial arrangement.
5. Establish parameters for the rate competition provision.
6. Encourage the increased use of private sector in program reviews, administration, and development to avoid costly duplication. Requires thorough evaluation of the cost effectiveness and farmer utilization of GRP and other pilot programs to determine whether they should be continued.
7. Substantial beneficial interest for reporting Social Security Numbers set at same level as definition in ASCS programs—10 percent.
8. Insure that GRP and other nonindividualized coverage can be offered only as an option to regular MPCI.
9. Provide a list of companies versus agents at the FSA office.
10. Provide the ability to offset government payments for unpaid premiums and indemnity overpayments due to producer fraud.
11. Deliver the noninsured assistance through the private sector.
12. Provide a minimum expense reimbursement not less than the administrative fee.

PROVIDING FARMERS WITH MORE PROTECTION

One of the most frequent comments about the Crop Insurance Program is that it doesn't provide enough coverage. The first question of many farmers who currently buy MPCI about the reform proposal is will it return to me the same level of benefits I am currently getting with both MPCI and disaster payments. Senator Conrad expressed that concern last week. That answer to that question is no.

There are, however, a variety of ways available to help farmers achieve that same level of protection. Some people have expressed a desire to focus more of the buyup subsidy at the 75 percent, thereby reducing those premiums more. We would have no problem with trying to do that provided the underlying risk costs are statistically derived. Where the money is going to come from is another question.

Many people want subsidies targeted for the 85-percent level of coverage. There are other means for making the program more attractive that the subcommittee may also want to explore that may meet the same need expressed by farmers in a more economical way for all parties involved.

One such alternative would be a type of supplemental product known as a "disappearing deductible" or "accelerated payout" rider. This type of insurance endorsement would pay farmers an increased indemnity amount per bushel as losses increased to the point if a farmer had a total loss, they would receive an indemnity reimbursing them for 100 percent of their APH. At what level of loss this accelerated payout is triggered and the rate at which it is accelerated affect the premium for such policies. This type of benefit could provide current MPCI users with the same level of benefits they currently get through crop insurance and disaster payments combined. The premiums for such supplementals are significantly more economical than the premium rates for 85-percent coverage.

The current law gives FCIC the authority to approve supplemental and alternative products for reinsurance, expense reimbursement, and premium subsidies. Along with the announcement of the administration's reform proposal, FCIC announced it had finally used this authority to approve one supplemental product on a pilot basis for 1994. We commend FCIC for doing so and encourage this sub-

committee to encourage FCIC to be much more proactive in this arena. Without reinsurance from the Federal Government on supplemental products, they will not be made available on as wide a scale as is justified or needed. In its exercise of this authority, FCIC also needs to set some ground rules to insure the timely consideration, equitable terms, and widespread availability of alternative products. Also, government reinsurance or other support of these products should be made available through cooperative financial arrangements with a minimum of red tape and administrative burdens. Given the proper incentives, reasonable opportunities for return on capital throughout the program, and appropriate government backing, USDA and farmers would be amazed at the explosion of crop insurance products that could be developed by the private sector.

CONCLUSION

We have a unique opportunity this year to provide a solid, dependable program of risk management for American agriculture. The time for leadership is now. This reform package will work if refined and implemented in a manner which capitalizes on the existing public/private partnership of the Crop Insurance Program. We cannot emphasize enough that this reformed program will only achieve its objectives if everyone involved approaches it with a new mindset.

We firmly believe that the private sector can deliver, day after day, more bang for the scarce Federal dollar available, thereby permitting the intended beneficiaries—farmers—to receive the bulk of those scarce dollars. We thank you for the opportunity to appear before you today and look forward to working with you to insure the development and implementation of an improved crop insurance program.

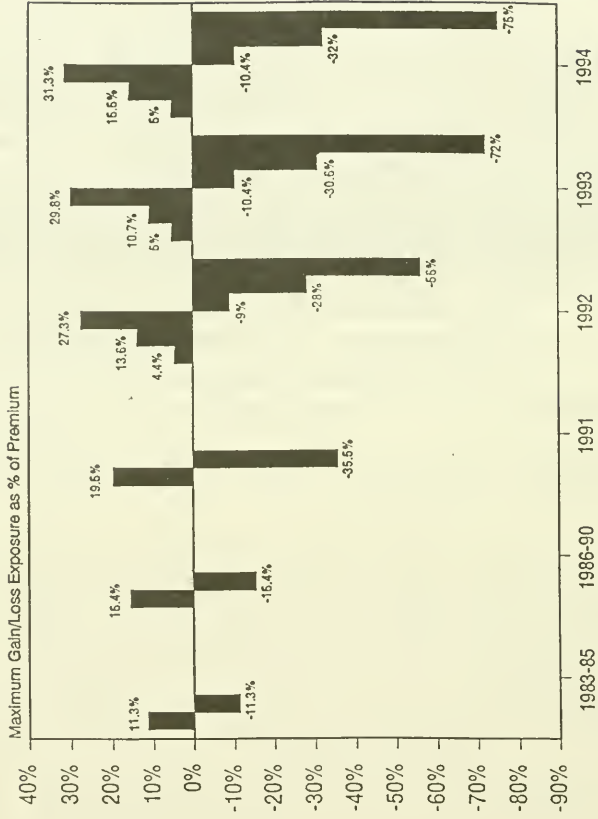
List of attachments:

Advantages of Private Sector MPC I Delivery (See page 43.)

Illustration of Increased Risk Requirements

General Illustration of Increased Risk Requirements

FCIC Standard Reinsurance Agreements For Private Company Participation



Illustrates SRA by State, By Fund

ADVANTAGES OF PRIVATE SECTOR MPC DELIVERY

- Local agents are in position in the local communities where the farmers are, they are known, they are trusted, they are experienced, they are licensed.
- Farmers have had a choice between direct government policies and reinsured private policies, they have chosen private policies—92-percent private; 8-percent government.
- Rural communities are dependent on the jobs and associated economic activity created by a privately delivered crop insurance program—some 68,000 private sector individuals receive all or part of their income from the sales, service, and adjustment of Federally reinsured, privately delivered, crop insurance. Many of these people are farmers themselves.
- Farmers don't have to wait in line to get their crop insurance. The agent often comes to them, agents have evening and weekend hours.
- Agents and companies already have established relationships with over 700,000 policyholders.
- Reinsured companies already have established relationships with over 700,000 policyholders.
- Reinsured companies have increasingly put their own money at risk in the program and compete against one another. This creates the incentive to do the job right from sales through adjustment. It has improved program loss ratios and cut down on claims errors.
- Reinsured companies invest added money in the program through the development of alternative and supplemental products which provide farmers additional means to sufficiently manage their risks.
- The creation of a government infrastructure sufficient to make the sales and perform the service necessary to achieve the levels of participation being called for would be enormously expensive and would have to be paid whether the objective was achieved or not.
- Reinsured companies and local insurance agents only get paid if they deliver. No sales, no cost. This provides the incentive to them and saves the Government money.
- Not all farmers participate in government programs, while they may purchase and need crop insurance.
- Even free coverage should be delivered by the private sector in order to seize the marketing opportunity to sell farmers the higher levels of coverage necessary to adequately manage their risks and avoid requests for disaster assistance.
- With a more stable program, private companies could do even a better job in efficiently delivering crop insurance. Annual instability affects hiring, strategic planning, long-term planning. Mid-year changes significantly affect operational efficiency.

Note: These advantages have proved themselves through the tripling of farmer participation in the program since delivery was largely turned over to the private sector.

Michael Connealy

On behalf of Rural Community Insurance Services ("RCIS") and its parent, Norwest Corporation, I am pleased to have the opportunity to testify before this subcommittee on the Federal Crop Insurance Reform Act of 1994.

RCIS is one of the largest general agencies for multiple peril crop insurance in the country. This year we expect our sales in premium dollars to approach \$200 million. We have over 1,000 agents engaged in the sale and service of crop insurance in virtually every county in the United States in which agriculture is significant to the county's economy.

Norwest is one of the largest agriculture lenders in the United States, having an agricultural loan portfolio in 1992 of approximately \$775 million. Whether Norwest lends money to a family farmer or to a business such as a seed, fertilizer or equipment dealer that, in turn, sells its products on credit to that family farmer, crop insurance is an essential link in the chain of credit on which our rural communities depend.

Because those communities and towns, their churches, schools, hospitals, and businesses are heavily dependent on farm income, they are as much affected by uninsured natural disasters as are the farmers whose crops have been destroyed.

Thus, to the extent that the Reform Act bolsters the collateral value of crop insurance for our farm families and increases their ability to manage risk, the Reform Act will also strengthen the financial underpinnings of our rural communities which look to those farm families for their own livelihoods and future.

We believe that the statutory declaration of purpose in section 502 of the Federal Crop Insurance Act is the yardstick against which the Reform Act must be measured. That section states that it is the purpose of the Act "to promote the national welfare by improving the economic stability of agriculture through a sound system of crop insurance." Will the Reform Act improve the economic stability of agriculture by making more sound the present system of crop insurance or will the Reform Act make the present system of crop insurance less sound and, thereby, lessen the economic stability of agriculture?

We support the administration's effort to eliminate disaster payments and increase participation in the Federal Crop Insurance Program. We do not believe, however, that these objectives are advanced by the creation of a duplicative, nationwide, Federal delivery system. Such a system is unnecessary and wasteful of scarce dollars that could better be used to increase insurance benefits to farmers.

Instead, we believe that the private sector, if it has not already done so, can provide qualified agents and adjustors to sell and service crop insurance in any county in which insurance protection adequate to the farmers' needs is made available, so long as our expenses are fairly reimbursed. We ask only that the Federal Crop Insurance Corporation publish for comment its definition of "underservice" and, by that definition, identify the counties it believes to be underserved. Only in those counties that the private sector cannot adequately serve should there be a Federal delivery system. Moreover, because mandatory linkage requires a dual delivery system, instead of linkage any farmer who declines crop insurance should be required to do so by signing a waiver and release of any claim to future disaster payments.

We believe, also, that the administration's objectives will be better served by enhancing the proven strengths of crop insurance as a risk management tool rather than by appending to every insured's policy a free level of catastrophic coverage that does not protect against true disaster and is not an asset in the management of risk or for the extension of credit. Accordingly, we believe that the Federal Crop Insurance Reform Act should be amended to redirect premium subsidies from the lowest level of protection to the highest levels of protection.

It is fundamental that the more farmers who buy higher levels of insurance the more sound the Federal Crop Insurance Program will be. The Manager of the Federal Crop Insurance Corporation testified to this effect before the Senate Committee on Agriculture, Nutrition, and Forestry on May 11, 1994, and, indeed, the Reform Act itself offers its own affirmation. Under the Reform Act, the FCIC will reimburse insurance providers for the industry average of their administrative and operating costs for the sale and service of the "desired" level of insurance, that is, coverage at the 65-percent level. The FCIC, however, will reimburse insurance providers for less than their average costs when they sell and service policies that protect against losses in yield other than the "desired" yield. And, of course, we receive only an administrative fee of \$50 or \$100 per county for the sale and service of catastrophic protection.

Because our costs for selling all levels of protection are exactly the same, we are punished if we do not sell the "desired" level of protection. Thus, the Reform Act's formula for reimbursement reflects a policy judgment by the FCIC that certain levels of protection better serve the public interest than other levels. If this is the case, and we believe it is, why should premium subsidies not reflect the same judgment and reward those policyholders who buy the highest levels of protection and thereby spend more of their own money in a manner that is consistent with the public interest?

Based on our experience as an agriculture lender and as a crop insurance marketer, we are convinced that catastrophic coverage would not benefit younger farmers who most need assistance but instead would benefit older, well established farmers who can retain risk and have less need for government benefits.

Most lenders, including Norwest, require adequate crop insurance as collateral for certain operating and land loans. This requirement most affects young farmers who have not yet built up equity in their land and equipment. Catastrophic coverage alone would not be adequate to meet the credit needs of these farmers, who represent the future of rural America. For collateral, they would need much higher levels of coverage and these are the levels the Reform Act would require them to pay for themselves.

Conversely, farmers who do not need loans at all or who have so much equity in their land and equipment that they do not need additional collateral for their loans, and therefore, who are not required to buy crop insurance, would be given a "free"

level of coverage that they may not need and that has little incremental economic value to the community at large.

Our position better addresses both groups of farmers than does the Reform Act. Our position will offer higher levels of protection than are presently available at a lower cost than is presently available and, thereby, address the primary criticism of the existing program, namely that the "price is too high" and the "coverage is too low." Our position will increase the financial stability of the family farmer and contribute to the credit worthiness of rural America. Moreover, if our position is adopted, there will be no need for a Federal delivery system and the millions that would be spent to create that system would be available for premium subsidies.

In short, we believe that section 508(e) of the Federal Crop Insurance Act should be amended so that: (1) the premium on any crop insurance policy that protects against a loss in coverage of between 50 percent and 80 percent will be subsidized to the maximum extent practicable, but in no event at a rate of less than 40 percent; and (2) the premium on any lesser level of coverage will be subsidized only to the extent that annual appropriations exceed the amount needed to subsidize the higher levels of coverage at the stated percent level.

We also propose that the Reform Act make coverage available at incremental, 5-percent increases in yield ranging from 50 percent to 80 percent, so that policyholders can pick the level of coverage that best meets their specific needs. (*This will allow insurance to be quoted in dollar amounts*).

We cannot emphasize enough the importance that policyholders be allowed to pick the level of coverage that they decide best meets their specific needs. We are very concerned that the FCIC might limit these choices, if not directly, then indirectly through its Standard Reinsurance Agreement. For example, while the Reform Act requires the FCIC to reimburse the industry's average cost for the sale of coverage at the 65 percent level and higher, we understand that the FCIC may not reimburse those costs for the sale of coverage above the 65-percent level. Because the Reform Act does not allow the FCIC to reimburse the industry's average cost on sales of coverage below the 65-percent level, to recoup its costs the industry must sell only 65-percent coverage or lose money on every sale where 65-percent coverage is not suitable to a policyholder's needs.

We also understand that the FCIC might skew the gain and loss formula in the SRA to force companies out of high risk areas or away from higher risk crops. This, of course, will limit farmers' access to professional agents and to higher levels of protection and will undermine the domestic assistance function of crop insurance. Secondly, the SRA will also make the FCIC's argument for a dual delivery system a self-fulfilling prophecy: if we are forced out of certain counties or States for underwriting reasons, the FCIC will have created its own justification to replace private agents and adjustors with a Government sales and adjustor force.

Turning from questions of subsidy and coverage, we are opposed to that provision in the Reform Act that permits private insurance providers to reduce the premium charged the insured if insurance can be sold and serviced for less than the FCIC's expense reimbursement. Rebates of commissions, whether by the agent or the insurance provider, will eventually result in a loss of service and disparate treatment of policyholders based on their crops, their size or their location. In effect, some policyholders will be charged a premium determined by the FCIC to be actuarially sound and other policyholders will be charged a premium which, because it is less, is presumptively, actuarially unsound.

RCIS is generally recognized to be one of the most efficient organizations engaged in the sale and service of multiple peril crop insurance but, even after closing nine offices and laying off a number of employees, we are still operating at "break even." The Reform Act will only increase our costs.

The Reform Act simply does not recognize that whether the market price for a bushel of wheat is \$3.00 or \$5.00 and whether 50 percent of its loss is insured or 75 percent of its loss is insured, our administrative costs are exactly the same. Accordingly, for an administrative fee of \$50 or \$100 per county, we can only afford to accept and process applications for coverage on an area yield basis. If there is a loss on the policy, we would then complete and process acreage reports and adjust losses in exchange for reasonable expenses. Moreover, the Reform Act should make clear that the \$50 or \$100 administrative fee should be retained by the collecting agent in order to avoid the added record keeping costs and liability that its remittance to the FCIC would require. The administrative fee should be characterized as a debt to the agent and not to the FCIC.

The Reform Act should also be amended to remove its so-called single service point provision. Under this provision, by way of illustration, if a producer grew five crops in a county and wanted catastrophic risk protection on four crops and a higher level of protection on one, the Reform Act would require RCIS to write four cata-

strophic risk policies for \$100 in order to earn a commission on one policy. Because our costs on all five policies are the same, Norwest would be required to subsidize the Reform Act, which it cannot do.

I appreciate the opportunity to appear before you today. If at any time during your deliberations RCIS or Norwest can supply any information, please do not hesitate to call upon us.

Doyle Rahjes

Mr. Chairman, thank you for this opportunity to testify on crop insurance legislation on behalf of the American Farm Bureau Federation with its 4.2 million family members from across the Nation.

My name is Doyle Rahjes, and I am the president of the Kansas Farm Bureau and a member of the Board of Directors of the American Farm Bureau Federation.

As a member of the National Commission for the Improvement of the Crop Insurance Program, which completed its work in July, 1989, I hope to share with you both my experience there and my activities on crop insurance within the Kansas and American Farm Bureaus.

At the AFBF 1994 Annual Meeting held in Fort Lauderdale, Florida, the voting delegates reaffirmed our longstanding policy that crop disaster programs and crop insurance should be combined into a single program designed to obtain the greatest amount of participation.

That is why we feel the objectives and the techniques of the administration's crop insurance proposal are worthy of serious consideration by Congress.

We do, however, have some reservations about certain provisions in the proposal that we feel are contrary to achieving full participation and which apply unnecessary eligibility tests that would further discourage full participation in both the crop insurance and the price support programs.

Farm Bureau Policy is very clear that participation in a crop insurance program should remain voluntary and that there should be no mandatory linkages between farm program participation and Farmers Home Administration loan eligibility and crop insurance. The current proposal does not satisfy that requirement. Even though the linkage in the proposed program is limited to participation in the catastrophic coverage portion of the Crop Insurance Program at a nominal fee, it establishes a mechanism that could become very burdensome for producers. Moreover, we are concerned that the nominal costs of the mandatory portion of the program would set a precedent for the future. A cap on participation fees for catastrophic coverage which is set at \$100 today could escalate rapidly under future budget pressures, yet producers would be required to participate whether or not they get any real individual benefits from the program. In brief, we believe that a well-designed and attractive voluntary program will work much better. Voluntary access and freedom to participate always win over government coercion.

Another important concern is the linkage between crop insurance and farm program participation. If this linkage is made, then Congress would face a very difficult task of making sure that appropriate measures are taken to isolate the catastrophic portion of the coverage from future budget reconciliation considerations. About \$700 million in new money is being requested by the House for the crop insurance reform effort based on previous program crop expenditures resulting from ad hoc disaster legislation. There is concern that if funding remains at the \$700-million level, nonprogram crops might be treated inequitably. If there were farm program crop overruns (particularly if parliamentary changes make it increasingly difficult to pass ad hoc disaster assistance for noninsured crops), then noncovered crops would likely receive reduced or pro rated benefits.

We have a number of specific concerns about the levels of coverage. First, the 50-percent yield loss provision of the "basic coverage" provides substantially less coverage for moderate losses than disaster programs that have been implemented in recent years. In other words, disaster funding has been applied to losses below 65 percent of normal production, whereas the proposed crop insurance reform "kicks in" only for yield losses greater than 50 percent. Another shortcoming of the crop insurance reform package is its reliance on yield as a trigger mechanism for insurance payout.

Farm Bureau strongly favors coverage based on dollars-per-acre rather than yield. Reliance on yield as a trigger mechanism tends to skew the program in favor of high-risk production acres and makes it much more likely that gaps in coverage will exit.

Second, with respect to the "buyup" provisions, it is unclear as to where, and from whom, producers must purchase this coverage. Here there is another potential gap

in coverage. By virtue of it being a yield-triggered pay versus a-dollar-per-acreage coverage, even if narrowly drawn, there is an invitation for future retrenchment of program benefits, and as such make the overall crop insurance plan less effective when the day comes that a future Congress will be urged to provide disaster relief beyond that provided by the Crop Insurance Program.

Finally, there are a number of provisions in the administration's proposal in section 522, the "Noninsured Assistance Program" that we view the great concern. They include:

"* * * (8) A person who has qualifying gross revenues in excess of \$2 million annually, as determined by the Secretary, shall not be eligible to receive any noninsured payment."

This section then goes on to define "qualifying gross revenue."

Granted, the scope of this language is fairly narrow, and the \$2-million threshold might appear to many observers as high, there is great mischief afoot in establishing a "means test" in this legislation.

Veteran Members of this committee will recall the 1990 Farm bill debate and the floor struggle necessary to avoid a much lower \$100,000 means test amendment for price support program eligibility.

It seems obvious to us that the \$2-million level or any stated level will become an early and easy target for budget cutters.

Another troublesome provision in section 522 also states as follows:

"(e) * * * payment limitations—(1) The total amount of payments that a person shall be entitled to receive annually under this section may not exceed \$100,000."

The section goes on to define "person" along the same lines as now apply to price support programs.

Finally, the language regarding the estimation of yields by averaging observations from a minimum of four previous crop years needs to be clarified for fruits and vegetables. For some fruit and vegetable operations in the more temperate climatic zones, there may be several crops planted sequentially in the same calendar year. In light of this, is the intent of the legislation really yields of crops planted in "four continuous crop years," or "four consecutive crop plantings?"

In summary, Mr. Chairman, we feel this proposal has many attractive features, and the basic idea behind it is sound.

However, we hope you and the rest of Congress will amend it by deleting or changing the provisions we find counter productive and unfair.

Alan Bergman

On behalf of the 250,000 families of the National Farmers Union I wish to thank you for holding this hearing on S. 2095 and the reform of Federal crop insurance. My name is Alan Bergman, and I farm at Jud, North Dakota, where I raise wheat, barley, sunflowers, flax, and alfalfa. In addition to farming, I serve as a member of the executive board of the National Farmers Union, and president of the North Dakota Farmers Union.

Delegates to our 92nd annual convention held this spring in Fargo, North Dakota, expressed strong support for improving crop insurance with the addition of catastrophic coverage. Attached with this statement is a copy of the special order of business passed by the delegates.

My testimony today will address the following items included in the S. 2095:

1. Repeal of ad hoc disaster
2. Establishment of catastrophic coverage
3. Linkage to farm programs
4. Delivery system of crop insurance
5. Industry competition
6. Assistance for uninsurable crops
7. Actuarial soundness
8. Budget authority
9. Adequacy of higher levels of coverage
10. Federal Crop Insurance Advisory Committee

Repeal of Ad Hoc Disaster. National Farmers Union supports the repeal of ad hoc disaster authority if catastrophic insurance is made available to producers at an affordable price.

The Adequacy of Catastrophic Coverage. S. 2095 would provide protection against losses greater than 50 percent, at a payment rate of 60 percent of the expected market price. This yields coverage of about \$.30-per-dollar of loss in a complete disaster year.

The proposed level of coverage compares to the 1993 disaster program which paid \$.42-per-dollar of loss, and the 1992 program which paid \$.19-\$.21-per-dollar of loss, depending on whether the producer had purchased crop insurance.

The adequacy of the catastrophic coverage will depend on how losses are calculated, as well as how the payment rate is determined. We support the provision which allows producers to choose whether to use actual production history (APH) or area yield. We would like to strengthen the language to require that both are offered. We further recommend that APH should be calculated by excluding production from disaster-declared years.

We also recommend that the payment rate is increased to 100 percent of the expected market price.

Linkage to Farm Programs. We support offering crop insurance as a benefit of farm program participation. We further support requiring participation at the catastrophic level, as long as the cost of participation is limited to \$50 per crop, per county, with a cap of \$100 per producer per county.

Delivery System. Dual delivery offers producers the option of where to obtain the catastrophic coverage. It also raises some questions. Who will do the adjusting? Who will pay the administrative cost if the producer obtains coverage from both Farm Service Agency and the private agent?

Under the current system, if a disaster occurs, an adjuster from the crop insurance agency does one adjustment and a member of ASCS does a second adjustment.

Whatever the decision on adjusting, steps must be taken to assure that crop loss adjustment is fair and accurate. We cannot afford to have duplication in adjusting.

We support providing additional coverage through private agents. Agents are able to "sell" farmers on crop insurance in a way that the FSA person may not be equipped to do. We also support the provision which waives the administrative fee for those who sign up for coverage greater than the catastrophic level.

Industry Competition. We support allowing private insurance companies to compete on lower rates and increase the level of available coverage. We are pleased that companies will be allowed to offer coverage as high as 85 percent of APH or 95 percent of area yield.

Assistance for Uninsurable Crops. We support providing a permanent disaster program for uninsurable crops. However, we believe a producer should establish a crop production history before becoming eligible for disaster assistance. This will prevent producers from farming the program.

Actuarial Soundness. We support the goal of approaching actuarial soundness. We believe this will be better accomplished by implementing the use of actual production history.

Budget Authority. We support increasing the budget authority to accommodate the funding request of the administration. We would point out the additional spending will result in net savings of \$750 million to \$1 billion, over a 5-year time period.

Adequacy of Higher Levels of Coverage. We believe that crop insurance will not provide adequate loss protection unless producers participate in levels of coverage higher than the catastrophic coverage. We believe coverage should be available to allow the producer to cover the cost of production, including yield coverage at the 65, 75, and 85-percent levels.

We further recommend that a premium subsidy is offered to encourage producers to participate at these higher levels. Producer participation in the catastrophic level alone will provide insufficient loss protection and will create a demand for disaster assistance.

We support provisions in the bill which require producers to be offered coverage for loss of yield and prevented planting. We also support providing coverage for loss of quality.

We support the provisions regarding the higher level of coverage which allows the producer to choose between APH or area yield when both are available. However, we would like to go an additional step by requiring that both be made available.

Federal Advisory Committee. We support the establishment of the Advisory Committee for Federal Crop Insurance. However, we recommend requiring that at least half the board be comprised of family farmers.

SUMMARY

We offer our strong support for the reform of crop insurance and we stand ready to work with the administration and Congress to ensure that the final bill will address the needs of producers as well as minimize budget exposure.

SPECIAL ORDER OF BUSINESS

We commend the administration for supporting the reform of the Federal Crop Insurance program.

We support provisions which would provide catastrophic coverage as a benefit of participation in commodity programs or Farmers Home Administration lending programs.

We support allowing producers to base yield coverage on actual production history (APH).

We support offering producers assistance to purchase coverage above the catastrophic level.

We support offering coverage for late or prevented plantings.

We call on Congress to make the following additions to the above-stated provisions:

1. We support increasing catastrophic coverage of 50 percent of yield $\times$ 60 percent of price to 50 percent of yield $\times$ 100 percent of price in order to make the new catastrophic insurance cover losses in excess of 50 percent.
2. We support allowing producers to exclude disaster years, as declared by the Secretary, from APH calculations.
3. We support adding an additional level of coverage higher than the 75-percent level.
4. We support basing the expected price on the higher of the target price or the 5-year-rolling average of the 12-month-market price.
5. We support requiring insurance companies to offer both APH and area yield options to producers.
6. Four years of APH must be established on new land brought into production before coverage would be available.

Deanna Orwig

The National Association of Crop Insurance Agents ("NACIA") appreciates the opportunity to submit its views on the Federal Crop Insurance Reform Act of 1994 to the subcommittee. NACIA is a nonprofit association of independent crop insurance agents organized to promote a Federal crop insurance program that fairly protects the Nation's farmers from natural disaster and that recognizes the importance of independent crop insurance agents, not only to the Federal Crop Insurance Program, but to the rural economy as well. NACIA is the only agents association devoted exclusively to crop insurance; it is not affiliated with or supported by any insurance company or managing general agency.

The Reform Act creates a level of crop insurance called catastrophic risk protection that the FCIC estimates will increase participation in the Federal Crop Insurance Program to 80 percent, adding 1 million policyholders to the rolls. Catastrophic risk protection will insure these producers against a 50-percent loss in yield on an area or individual basis indemnified at 60 percent of the expected market price. The FCIC will fully subsidize the premiums for this level of protection, requiring only that producers pay an administrative fee of \$50 per crop per county, not to exceed \$100 per producer per county. The Reform Act requires a private agent or a United States Department of Agriculture ("USDA") office to collect this \$50 or \$100 administrative fee at the time of policy application or renewal. For this fee, the Reform Act will require agents to accept and process applications for coverage on an individual yield basis and prepare actual production histories and acreage reports. The same fee is paid whether 100 acres or 1,000 acres are insured.

I am an independent insurance agent in Iowa and have sold and serviced crop insurance exclusively for 26 years. This past April, my agency sold approximately 400 new policies. We worked 12 hours a day for 14 straight days. Regrettably, some of our applicants were farmers who had never had crop insurance, who did not understand the Crop Insurance Program and who purchased the lower levels of coverage available just to qualify for disaster payments. While these policyholders may "buyup" another year, for now this experience taught me that I cannot sell and serv-

ice individual coverage with actual production history at the catastrophic level for \$50 or \$100 per county, no matter how many acres are to be insured.

Thus, the first amendment to the Reform Act NACIA requests is that agents be paid a full commission for the work they perform in the sale and service of catastrophic coverage. Our costs are the same for any level of insurance we sell but the time we will require to explain the program and its risk management potential to first time applicants will be substantially increased. If there is a "buyup," agents should be paid a full commission.

Conversely, if we are not paid fair value for our services, the only service we can afford to perform for an administrative fee of \$50 or \$100 is to accept an application on a single unit or area yield basis. In addition, we should be permitted to keep that administrative fee rather than remit it to the FCIC because the bookkeeping costs of collecting and accounting for hundreds of thousands of \$50 or \$100 checks and the liability that will attach to their loss may cost more than each individual agent collects.

NACIA opposes mandatory linkage and a dual delivery system. The Reform Act, however, would authorize USDA offices to deliver catastrophic risk protection. We understand that this proposal is consistent with the department's plan for "one stop shopping"; that it obviates the need to require farmers to visit insurance agents; and that it answers a need in unidentified counties that are not served or are underserved by private agents.

This proposal raises many questions. How will the USDA provide convenient, "one stop shopping" when it is supposed to close scores of offices and reduce its employment by thousands? Will the Reform Act require a change in those plans? Is the Reform Act a gambit to maintain the USDA bureaucracy? We believe that it will cost \$200 million to train USDA employees to give away catastrophic risk protection and to instruct farmers on their essential need for higher protection. Why should not these moneys be directed to additional premium subsidies or other insurance benefits for farmers? Why do states and counties that are adequately served by private agents require a dual delivery system? Why not develop educational programs to explain the value of crop insurance as a risk management tool?

The FCIC's argument that farmers who only want catastrophic coverage should not be forced to visit insurance agents is also inconsistent with the terms of the Reform Act that the FCIC drafted.

Under the expense reimbursement formula the Reform Act creates, agents' expenses will be reimbursed based on an industry wide average only for selling the highest level of coverage. The Reform Act specifies that our expense reimbursement for selling the lower level of coverage must be less, even though the cost of selling both levels is the same. The acknowledged purpose of this disparity is to encourage the sale of the highest level of production because that level is most consistent with the public interest. If the highest level of coverage is in the public interest, however, why does the Reform Act create a mechanism to divert producers away from agents who, alone, are qualified and authorized to explain the benefits of higher protection? Why does the Reform Act add to everyone's paperwork burden by requiring files to be transferred from USDA offices to agent offices? Who will be responsible for these transfers? The Reform Act should simply funnel producers to their nearest agent's office and permit agents to refer farmers who will not buyup to their local USDA offices.

If indeed there are counties in the United States where agriculture is a significant part of the economy but there are no crop insurance agents, by all means install a government delivery system—but only in those counties. Otherwise, appropriated funds should be used to reduce the cost and improve the benefits of crop insurance.

In this regard, the subcommittee should be aware that the FCIC's records disclose the inordinate expenditures that were made to train USDA employees to sell Federal crop insurance and the inadequacy of their accomplishments. In the first 4 months of 1992, the Department of Agriculture spent \$202,000 to train USDA employees to sell, service and adjust losses on Federal crop insurance policies. As of that date, a total of 50 USDA employees had been trained to adjust losses. The return on that \$202,000 was two policies sold but one was sold in error. The two policies were sold to a husband and wife but under FCIC procedures a husband and wife must insure their production together under one policy. Moreover, the policies were not sold in a State in which there was a USDA employee qualified to adjust losses.

Thus, the second amendment to the Reform Act NACIA requests that there be a dual delivery system only in those counties it is agreed that there are too few agents. The Reform Act should also contain a provision requiring farmers who refuse to purchase crop insurance to waive any future claim for relief from losses to natural disaster.

New section 508(d)(3) which authorizes the private insurance provider to reduce the premium charged the insured should be deleted. This section is an invitation to rebates. Because of the reduction in reimbursements for administrative costs by Congress and an increase in our workload by the FCIC, no agent or private insurance provider can reduce premiums without reducing service. The law should force companies and agents to compete to give more service, not less.

Finally, NACIA believes that it is in the farmer's interest to have higher levels of protection fully subsidized, rather than the lowest level. Crop insurance is a risk management tool and farmers should have an incentive to fully utilize that tool.

We appreciate the subcommittee's consideration of NACIA's views and would be glad to answer any questions its Members might have.

Douglas Fender

Mr. Chairman, and Members of the subcommittee, my name is Douglas H. Fender and I am the executive director of the American Sod Producers Association. I appreciate the opportunity to submit a statement regarding the availability of crop insurance for specialty crops like turfgrass sod.

The American Sod Producers Association (ASPA) is a 26-year old, not-for-profit association with members in 49 States in the United States, Canada and 25 other countries. ASPA consists of more than 600 turfgrass sod farm operations that produce approximately 80 percent of the acreage sold each year in the United States. ASPA represents its members on Federal issues of importance, and crop insurance and disaster relief assistance are top priorities for our association.

I want to preface my statement by commending the administration and the subcommittee for their efforts to provide farmers with a rational policy on the availability of Federal crop insurance. Moving away from reliance on Federal disaster relief measures and toward crop insurance makes fiscal as well as practical sense. However, Congress should recognize that an effective and equitable crop insurance program must, at a minimum, provide protection for the same agricultural commodities presently entitled to disaster relief assistance. Turfgrass sod is eligible for disaster relief assistance under the terms of the 1990 Farm bill. Prior to the Farm bill, however, turfgrass sod was excluded because of definitional ambiguities in USDA assistance programs.

Legislation to expand crop insurance as an alternative to ad hoc disaster relief legislation should ensure that turfgrass sod is included as an eligible crop. We are concerned that the language of S. 2095 creates some doubt regarding the eligibility of turfgrass sod and other specialty crops. As discussed below, definitional ambiguity in other USDA programs has resulted in confusion and, in some cases, the exclusion of producers of turfgrass sod from benefits to which they should be entitled as an agricultural commodity.

Turfgrass sod farmers, like those producing nursery and other specialty crops, often face challenges that other more traditional types of agricultural commodities do not. Although turfgrass sod is considered an agricultural commodity under many Federal and State laws,¹ it is sometimes inappropriately excluded from Federal benefits afforded other agricultural commodities. This is often a result of oversight or lack of knowledge about its production and harvest characteristics.²

Several statutes define the term agriculture to be "food or fiber." Because turfgrass sod typically is not considered a traditional "food or fiber" agricultural commodity, it is important for the subcommittee to understand that turfgrass production is nevertheless a traditional agricultural activity. It is produced, cultivated and harvested in much the same manner as other more familiar agricultural commodities. As a consequence, ASPA believes that turfgrass sod farmers should have the same degree of access to crop insurance that other agricultural producers are entitled to obtain.

ASPA's members' experience with disaster assistance in the past illustrates the problems encountered in our industry. These problems will continue unless the pro-

¹ The Departments of Agriculture, Labor, Treasury, and Commerce, as well as the Environmental Protection Agency, all administer and enforce laws and regulations that define and treat turfgrass sod as an agricultural commodity.

² For example, under the Swampbuster program, producers of annual program crops lose payments from USDA for wetlands converted into cropland after 1985. In defining what is prior converted cropland for the broader purposes of the Clean Water Act, the Army Corps of Engineers borrowed the Swampbuster definition of "agriculture" which is limited to annual crops governed by the Swampbuster program. As a perennial crop, turfgrass sod, along with all other perennials, was arbitrarily denied prior converted cropland status under the Corps of Engineers definition.

posed Federal crop insurance program includes within the definition of eligible crops specialty crops like turfgrass sod.

For example, prior to the 1990 Farm bill, turfgrass sod's exclusion from disaster assistance resulted in part because it was not considered "food or fiber." USDA officials responsible for administering disaster relief assistance felt constrained to limit relief to crops falling within that narrow definition.

Section 2244 of Public Law 101-624 (1990 Farm bill) resolved the definitional problem in the context of disaster relief. It included turfgrass sod among the "nonfood or fiber" crops determined to be eligible for disaster assistance. The 1993 disaster relief provisions necessitated by the floods in the Midwest last year also adopted this definition.

As the subcommittee moves forward with legislation to reform disaster assistance and require the purchase of crop insurance, we request that it include turfgrass sod, nurseries and other specialty crops within the provisions defining eligible agricultural crops. We ask that turfgrass sod farms be allowed to participate in crop insurance in the same fashion as other agricultural crops and that USDA be given the necessary guidance to achieve that end.

We are somewhat concerned, however, by the crop eligibility provisions of S. 2095. Section 520 of the bill would condition eligibility for catastrophic risk protection coverage on the definition of a "person" as determined by the Secretary of Agriculture. Since eligibility will be determined by regulations issued by USDA, it is critical the legislation clarify, as did the 1990 Farm bill, that "nonfood and fiber" crops are "persons" for purposes of program eligibility.

In addition, section 522(a)(1) of S. 2095 authorizes the establishment of a noninsured assistance program. Coverage would be extended to all "commercial crops and commodities for which catastrophic risk protection coverage is not available and that are produced for food and fiber." Use of the term "food and fiber" poses a problem. As previously discussed, turfgrass sod does not meet the traditional definition of "food or fiber." To avoid the problems caused in crop disaster programs preceding the 1990 Farm bill, we strongly suggest that the definitional section of S. 2095 be amended to include turfgrass sod and other specialty crops within the category of eligible crops.

Notwithstanding the fact that the 1990 Farm bill includes "nonfood or fiber" crops within the definition of eligible crops, we raised these concerns with officials of FCIC. We have been assured by officials of FCIC that turfgrass sod will be considered eligible for crop insurance. While ASPA receives some comfort from such representations, it is preferable that the legislation clearly evidence such an intent. We respectfully request the subcommittee's assistance to clarify the definition of eligible "persons" and the term "food and fiber." Even though FCIC presently considers turfgrass sod to be eligible for crop insurance, we believe more explicit definitions would reduce eligibility problems in application of the program.

We look forward to working with the subcommittee as it develops legislation to reform Federal crop insurance. We respectfully request the subcommittee's help to eliminate any definitional ambiguity in the proposed legislation that might exclude turfgrass sod farmers from access to crop insurance. We will be glad to provide any additional information regarding this issue. Thank you for the opportunity to present our views.

Phil Burns

Mr. Chairman, and Members of the subcommittee, I am pleased to be here on behalf of the American Bankers Association (ABA) to participate in this hearing regarding S. 2095, the "Federal Crop Insurance Reform Act of 1994." My name is Phil Burns, president of the Farmers and Merchants National Bank in West Point, Nebraska located about 50 miles northwest of Omaha. I currently serve on the American Bankers Association's Agricultural Bankers Executive Committee. My bank has \$65 million in assets and a \$50-million-loan portfolio, of which \$35 million is in agricultural loans. Crops in our service area include corn, soybeans and alfalfa. Like many other banks across the Nation, we own a fullservice insurance agency, which we bought several years ago. However, we have been selling crop insurance for at least 10 years, even before the insurance agency was purchased.

As many of you know, the American Bankers Association is the national trade and professional association for America's commercial banks, from the smallest to the largest. ABA's members represent about 90 percent of the industry's total assets. Approximately 94 percent of ABA's members are community banks with assets of less than \$500 million. Most of ABA's members have substantial agricultural

portfolios. It is good being here today to make a brief statement and answer any questions you may have.

To begin, the banking industry would like to commend Senators Pryor, Helms, and Members of the entire Senate Agriculture Committee for looking at ways in which we can effectively address crop insurance and disaster assistance issues. Further, America's small and large banks support adequately-funded crop insurance reform at the Federal level. Your interest in improving the Crop Insurance Program by providing reliable catastrophic coverage on the basis of individual farmers' needs and reducing unreliable ad hoc agricultural disaster programs is a good move for our Nation's farmers and the rural communities about which we are all concerned. An emphasis on crop insurance sales through the private sector wherever possible is also a step in the right direction.

Banks across the country are primarily concerned about the availability of crop insurance which can be consistently and efficiently used as collateral. We know that dependable crop insurance based on individual farmer's needs can, and frequently does, mean the difference in whether banks are able to approve operating loans and other types of credit for farmers struggling to stay ahead in high-risk situations and in challenging agricultural markets.

Like many other banks, our bank is an active participant in Farmers Home Administration (FmHA) guaranteed lending programs. FmHA requires the purchase of crop insurance before loans can be processed. We join other banks across the country in looking for ways to help beginning farmers and ranchers in particular who are often high-risk borrowers. Adequate crop insurance coverage helps us to continue serving these and other customers.

Mr. Chairman, and Members of this subcommittee, commercial banks join you in looking for ways in which cost-effective and reliable types of crop insurance can be made available at reasonable prices. Crop insurance is one of the Government-assisted programs utilized by commercial banks to effectively serve rural economies. The banking industry is interested in working with you to consider reasonable ways in which we can continue meeting the various needs of all rural communities.

Mr. Chairman, in closing, America's bankers are interested in working with you and Members of this subcommittee to advance an adequately-funded and reliable crop insurance program which can meet the various needs of the individual farmers we serve. Thank you for this opportunity to express the concerns of small and large banks across our Nation. Attached to my printed statement are specific responses to your questions regarding S. 2095.

POSITION STATEMENTS

The American Bankers Association

- The American Bankers Association supports the availability of reliable crop insurance. Crop insurance can make a positive difference in whether marginal borrowers can get operating loans;

- Regarding the \$50 catastrophic coverage processing fee not to exceed \$100 per grower per county, most bankers believe it would be affordable to all producers. Simplification is the key;

- It is a good idea to require producers to obtain at least catastrophic coverage in order to be eligible to participate in price support and loan programs. This provision is necessary if Congress has any hope of moving away from ad hoc disaster payments.

- The banking industry commends your emphasis on developing a dual delivery system in which catastrophic coverage can be widely available from both the private sector and USDA service centers. Your emphasis on the availability of additional coverage being available only through the private sector is a step in the right direction;

- The members of ABA believe that utilization of actual production history over multiple years to establish necessary coverage level(s) is the correct approach;

- Producers should be required to insure all cropland;

- Some farmers, especially those who are just getting started, may be highly leveraged. We encourage you to keep in mind that more than 75-percent coverage may be necessary in some cases. Producers should have opportunities to purchase supplemental products;

- Farmers who grow noninsurable crops need special coverage prior to planting season;

- ABA encourages the FCIC to make broader use of their authority to back private sector initiatives like "market value protection," which ties insurance to market prices and provides more protection to growers who presell or hedge crops during growing seasons.

The National Family Farm Coalition

The National Family Farm Coalition (NFFC) which represents 39 family farm and rural advocacy organizations in 30 States is pleased to submit this statement concerning the current reform of Federal crop insurance and disaster provisions. Our organization was formed in 1986 to provide both a link and a voice for family farmers in the debate over Federal farm and food policy.

NFFC supports a major change in the way the Federal Government prepares for and responds to disasters which strike at the livelihood of family farmers. Farmers need a farm policy that works and a disaster and/or insurance program that is accessible and affordable.

The NFFC supports the USDA proposed disaster and crop insurance program with a few modifications. We support the Federal Crop Insurance Reform Act of 1994 provision that would require catastrophic coverage for participants in any farm program. The package of coverage needs to provide economic security for producers of all crops and in all regions. A concern is what level of loss does this catastrophic level translate into? Our understanding is that it would trigger in once a farmer has lost 50 percent of production and pay at 60 percent of the price. This price however could fluctuate and could be lower than the target price.

Would the funds needed to meet these losses be considered an entitlement in the budget in exchange for removing the emergency off-budget nature of current agriculture disaster proposals? If not, this Government disaster level could be reduced by a formula based on the availability of limited resources which would undermine the whole system.

The other major question that has been raised by our Disaster Task Force that has reviewed the proposal is: What happens before the catastrophic disaster coverage kicks in? Our understanding is that private crop insurance sold through crop insurance agents or ASCS would be available. The critical question is, "at what price?" Our concern is on the price to the farmer struggling to meet cash-flow and budget projections and to the Federal Government in the form of subsidy payments to provide the insurance. It is in this area that we have come up with a proposal to help farmers "self-insure" against some of their possible losses. It would be through an expansion of the current Farmer Owned Reserve to make it into a true disaster reserve. This reserve could be released by ASCS when and only when a certain loss level had been reached on the individual farm or within a county. We would propose that it be in the 65- to 70-percent production level. In these cases, a farmer could still purchase crop insurance to protect against their initial losses before the 65-percent level. The grain taken out of reserve would then be available for orderly marketing.

We propose to establish a level of bushels of each commodity that the Government wants to have on reserve and off the market. The grain in the disaster reserve would not be eligible for a loan. Farmers could be eligible for a cost-share payment to build or maintain high quality grain storage. Farmers would continue to receive the farmer storage rate instead of the higher commercial rate. We know that our proposal is more easily applicable to wheat and feed-grains and some other storable commodities but feel that it should be considered as part of the package as we address the different options that could work together to cushion the weather risk.

We would ask that the committee look at the costs to the Federal Government of the insurance subsidy for wheat and feedgrains for this range of protection in contrast to the costs of an expanded grain reserve. As part of this analysis, we would also request the impact on net farm income if a farmer had these two types of coverage and the same level of loss.

Who needs to be covered? These programs need to respond to the family farmer who has made the transition from corn and soybeans to growing produce for a local farmers' market as well as the diversified farmer who milks 50 cows and raises 100 acres of corn but still buys hay for feed. Beginning farmers or farmers making the transition from conventional farming practices to low or no chemical use must not be penalized by a long requirement of 4-10 years of personal crop history to avoid a set reduction of 35 percent. Minority farmers who have historically been under-

represented in farm credit and Federal farm programs should not be doubly hit by loss of coverage in a disaster. These are the farming businesses and operations that all too often are already the most vulnerable due to other situations. These new programs need to minimize the risks not increase them.

Last summer, the flood in the Midwest and drought in the Southeast became the priority issue for our organizations throughout the country. It has been as crisis/credit intervention, pushing for legislative and administrative changes in the Disaster Program, and educating farmers and others in the rural community about what is and should be available. The—impacts of last year's weather is felt far beyond the flood waters. Every dairy and livestock farmer has been facing increasing feed costs. For those who produced hay crops without value, USDA stated that they couldn't produce a formula to calculate loss and there was still some value in that it could be used as "bedding."

It has been a frustrating process to say the least. In Missouri, where last month's Washington Post referred to 33 percent of the Nation's \$10 billion of flood losses; there were only 241 applications for FmHA emergency loans—2.1 million crop acres were lost last year. Is this low application rate due to lack of information, frustration, or uncertainty over the requirement to pledge all assets as security? I certainly doubt it is due to existing disaster coverage and crop insurance premiums providing enough to keep farm businesses going.

The disasters of 1993 put the capacity of USDA and other government agency disaster response systems on the line. In many cases they failed miserably. What is the responsibility of USDA to publicize and inform farmers and their communities about these deadlines and changes? Are local offices even aware of the changes? Are there informative and accurate materials distributed by USDA to help farmers understand and decipher the maze of rules, regulations, and deadlines that govern these programs? We would contend that USDA needs to make it much easier for farmers to access their programs and become much more farmer-friendly. Farmers Legal Action Group (FLAG) produced an excellent Farmers Guide to Disaster Assistance. These types of manuals need to be supported by USDA and to ensure its dissemination to farmers and agency personnel.

It is now—the spring of 1994 when farmers are trying to obtain credit and assess the real damage of the past year. FmHA is now starting to foreclose after their March 1994 lifting of their year-long "suspension" which could hit many of the same farmers with a double whammy. In addition, there is proposed legislation to make changes in FmHA debt restructuring resulting from their credit reviews but primarily prompted by the "wealthy FmHA borrower" press from late January. We are concerned that these changes not remove existing borrower rights from farmer/borrowers in the rush to change the system.

NFFC supports a comprehensive approach to disaster and farm policy that helps to ensure that family farmers do survive. We urge you to continue asking these important questions and find the answers. The policy put in place now must work to make sure that natural disasters do not force farmers out of business, just like an insurance system helps to ensure that fire, loss, or disaster should not make me homeless. We are talking about homes, jobs, and livelihoods that are very vulnerable due to current inadequacies in the crop insurance and disaster provisions. We look forward to working with the committee on—this important issue and appreciate the opportunity to present this testimony. I would be happy to answer any questions.

SENATOR MCCONNELL'S QUESTIONS FOR THE WITNESSES AND RESPONSES THERETO

Richard Gibson

Question 1: Many people were adversely affected by the 1988 Drought and the 1993 Flood. If given these same circumstances how many producers would be covered under the administration's new FCIC proposal? Do you think we would need another ad hoc disaster bill?

Response: The Administration estimates that 80 percent of the eligible acreage in the United States would be covered under its proposal. Given the fact that the proposal requires that all participants in USDA farm and lending programs to be covered under at least the catastrophic level, it is unlikely that an ad hoc disaster bill would be necessary.

Question 2: Do you think this proposal increases competition among insurance companies?

Response: The proposed legislation includes a provision that states, "If a private insurance provider determines that it may provide insurance more efficiently than the expense reimbursement amount set by the corporation, if approved by the Board, may reduce the premium charged the insured by the amount of such efficiency. Any such reduction shall be subject to the rules, limitations, and procedures established by the corporation."

We believe the Board's rules should: include what types of efficiencies may qualify as a basis for a premium reduction, bar service decreasing efficiencies from qualifying; require a company found in violation of any FCIC procedure to refund FCIC any premium reductions it may have offered after approval by the Board; and require the Board to publicize any premium reduction approved under the subsection and the basis for such reduction.

Question 3: The overall crop insurance program has been inconsistent, costly, fraught with administrative problems, and program abuse. What improvements can you suggest that will help improve the delivery and operation of crop insurance?

Response: The FCIC could do a great deal to simplify the Crop Insurance Program. Some actions that could be taken include:

- reduction of the requirements for paperwork retention and transfer by utilizing electronic records;
- requirements for timely and predictable release of program information;
- development of tolerances for acreage modifications;
- development of an interactive data base on eligibility;
- simplification of data reporting requirements, elimination of insignificant data, and consolidation of multiple records;
- reduction of the number of times that files would have to be handled by consolidating APH and acreage reports on one form; and
- adoption of a more proactive approach to compliance by having one FCIC employee assigned to each reinsured company to work with each company on establishing and maintaining a reliable compliance program.

Question 4: Are there other alternatives that the committee should look at as we work toward crop insurance reform?

Response: Neither the new catastrophic protection program, nor the existing crop insurance program, can be properly delivered with the continuation of increased paperwork and red tape burdens added by FCIC to the private delivery system, while reimbursement rates continue to be decreased. Because the Government will have a limited amount of funds to deliver this program, the maximum program benefits can be delivered to American farmers only if the FCIC concurrently reduces its paperwork burden while it makes the additional benefits of the reform proposal available.

Therefore, we would support a provision to require FCIC to analyze its existing way of doing business and present a plan to Congress of how it would cut the costs of regulatory and paperwork requirements by one-third. In addition, the FCIC would be required to conduct a cost analysis of any new administrative or procedural requirements that it wishes to add. It would also have to provide an adjustment in compensation to the private delivery system or effectuate a change in existing regulatory requirements which would result in an equivalent cost savings. It is vital that the reformed and expanded crop insurance program be simplified and streamlined from its inception. Simply transferring the current cumbersome and inefficient system to the new program will be a management disaster.

Question 5: In Kentucky our participation is very low. How will we get farmers to sign up for the catastrophic coverage and to look at the buyups? The Administration suggests we can get 80-percent participation, do you think this is achievable?

Response: All farmers who participate in farm program or USDA lending programs will be required as a conditional of eligibility to sign up for the catastrophic coverage. We believe a major flaw in the proposal for dual delivery is that farmers who only sign up at the ASCS offices will not be made aware of the buyup options. A significant benefit to delivery solely by the private sector is the risk management counseling that a private agent can provide the farmer. We believe the private sector is ready to accept the challenge of servicing the vast majority of America's farmers with a sound risk management program that would replace the need for ad hoc disaster though a sound crop insurance program.

Question 6: How do you view dual delivery?

Response: It has taken FCIC the past 13 years to eliminate its dual government/private delivery system of master marketers and the private reinsured companies. Finally, because the Federal delivery system was so much more costly and because the overwhelming majority (over 90 percent) of farmers chose to purchase policies from private companies, the dual delivery system was terminated this year.

The reform legislation would create an even worse bureaucracy and a more inefficient system by allowing farmers to purchase catastrophic crop insurance coverage at their local ASCS office. Buyup policies would have to be purchased from a private agent. Such a dual delivery system will be extremely inefficient and costly, requiring the development of an entire duplicative system.

Therefore, AACI proposes (a) that ASCS be allowed to sell insurance only in areas where it has determined that there is insufficient service by licensed private insurance providers and (b) that where the ASCS does sell catastrophic insurance, the ASCS office will be only the delivery point. The farmer would merely fill out an application for crop insurance at the local ASCS office and FCIC would contract with private companies to provide all of the service on the catastrophic policy. AACI's proposal would avoid the need for a costly and duplicative delivery system, while ensuring that, in the areas where farmers would be poorly served by the private sector, they have an opportunity to receive service through their ASCS office. It would save millions of taxpayers' dollars which would then go to farmers, rather than to a costly, duplicative delivery system.

Michael Connealy

Question 1. How many producers would be covered under the administrations new proposal? Would we need another ad hoc disaster bill?

Response: We believe that the administration's target of 80-percent participation is in reach. A linkage (with waiver system) mandate must be included in the basic bill to achieve such high numbers. If we have anywhere over 60-percent participation, it will be very difficult to pass any additional disaster bill. The Parliamentary hurdle included in the administration's bill is going to curtail future disaster bills regardless of participation.

Question 2. Will this proposal increase competition among insurance companies?

Response: We assume that this question is in reference to the administration's proposal to allow price competition on MPCIC business. We believe that this is an ill advised attempt to force "efficiency" into the delivery system. It is our opinion that any Federally supported insurance program should have mandated rates, forms, coverages and claims procedures. It should be "generic" from a competition standpoint. If it is not, then you have the very real problem of "unfair discrimination" with agents legally rebating premiums and farmers price shopping for the "low cost source" * * *. FCIC would have to gear up its "oversight" forces to make sure that these "savings" were not passed on to farmers with a severe cost of "program integrity" * * *.

Question 3. What improvements can you suggest that will help improve the delivery and operation of crop insurance?

Response: Our written testimony goes into some detail as to how we can find a "fix" for crop insurance. We support a strong FCIC Compliance Division with sanctions to farmers or any others that abuse the program.

More important is that we address the "universal complaint/perception about crop insurance that the coverage is "too low" and the price is "too high." . . . We believe that the reform will be a failure if we spend an additional \$1-billion-per-year and do not address the basic perception of farmers that the program does not give them what it should. For certain—we should look at additional premium subsidy for the conventional program and also a "catastrophe" yield safeguard for disaster years . . .

Question 4. Are there other alternatives that the committee should consider as we work on crop insurance reform?

Response: The Administration's reform package does provide an excellent framework for handling the problem. We would hesitate to offer additional alternatives that would add "noise" to an already hotly debated program.



Question 5. Kentucky participation is low. How can we get farmers to sign up for catastrophic coverage and for buyups? Is the 80-percent target achievable?

Response: We reiterate that the "linkage" would almost dictate an 80-percent participation rate. The problem is that the catastrophic coverage is so low (50 percent of yield and 60 percent of price) that we need to focus our efforts on the buyups to avoid the discussion of additional ad hoc disaster payments should we encounter another year similar to the 1993 Floods or the 1988 Drought. To maintain a reasonable actuarial target, we'll need to focus on the premium subsidy for buyups being crucial to the program success. Our belief is that a better strategy is to increase the premium subsidy—perhaps as high as 40 percent (from current 25 percent average) and drop the "free level from 50–60 to 40–50 if necessary to pay for the additional premium subsidy. Those that are in the buyup part of the program have a material amount of coverage and are also "*footing the bill*" for a material amount of the premium. This also helps the younger farmers or any high leverage farmer that really needs and relies on the conventional program to secure operating loans for the farming operation.

Question 6. How do we view dual delivery?

Response: We're opposed to any duplication of the delivery system unless FCIC proves that the private sector delivery force of agents and companies is not handling the program up to the expectations of the Government. The vast majority of the States—including Kentucky—are more than adequately staffed to handle the program. Our opinion is that the use of County ASCS or FSA offices is more a political ploy by ASCS officials—many of whom are to soon be displaced—to justify additional offices and "tasks" for government employees. This may be necessary in New England or Alaska or other States we describe as "nonfarming"—but is wasteful in the major ag States such as Iowa, California or North Carolina.

Hyde Murray

Question 1: Many people were adversely affected by the 1989 Drought and the 1993 flood. If given these same circumstances how many producers would be covered under the administration's new FCIC proposals? Do you think we would need another Ad Hoc Disaster bill?

Response: It is likely that most producers would be covered for a portion of their "program" crops if the current proposal is enacted. An Ad Hoc Disaster—bill might have been averted for the 1988–89 Drought. The vast and large losses due to the 1993 flood poses another situation, in that losses are much greater to those farms in the flooded area and crop insurance participation was low (about 30 percent). I believe another Ad Hoc Disaster bill would be passed by Congress if the damage were extensive enough. This legislation can decrease the probability of ad hoc disaster legislation, but it cannot eliminate its possibility. It should also be noted that the 50-percent yield threshold in the proposal is more restrictive than that in effect in 1993, thus causing an estimated 15-percent to 20-percent decrease in eligibility.

Question 2: Do you think this proposal increases competition among insurance companies?

Response: It doesn't for the initial amount paid for by the Government. For the additional buyup there is doubt that it would because of the Standard Reinsurance Agreement (SRA).

Question 3: The overall Crop Insurance Program has been inconsistent, costly, fraught with administrative problems, and program abuse. What improvements can you suggest that will help improve the delivery and operation of Crop Insurance?

Response: Actuarial soundness is fundamental to assure competitiveness. Individual farm APY will help prevent abuse. Means testing or caps on claims will cause dissension with procedures.

Question 4: Are there other alternatives that the committee should look at as we work toward Crop Insurance Reform?

Response: This proposal encompasses much of the thrust of the FCIC Improvement Commission Report. The proposal is on the right track because the current program is not a desirable option. The committee, however, should not restrict it to the point it won't be used by a high majority of producers. A risk management tool *must* have choices not mandates to gain broad producer acceptance.

Question 5: In Kentucky our participation is very low. How will we get farmers to sign up for the catastrophic coverage and to look at the buyup's? The Administration suggests we can get 80-percent participation, do you think this is achievable?

Response: 80 percent is a high figure if buyups are included, however, if caps and other manipulations are removed and farmers feel that they are *not* being coerced catastrophic coverage at 80 percent could be attained. If buyups above catastrophic level is *required*, participation will be something less than 80 percent. Also, means testing of any kind automatically excludes producers who would otherwise participate in the program. A final point is that participation may well vary by regions of the Nation.

Question 6: How do you view dual delivery?

Response: Dual delivery dilutes the service and fragments those involved in providing the service. Competition should run its course through the private insurance delivery system to the maximum extent practicable.



ISBN 0-16-047793-X



90000



780160 477935